TRANSCRIPT OF PROCEEDINGS

Meeting of the

ASSEMBLY INTERIM COMMITTEE

on

MUNICIPAL AND COUNTY GOVERNMENT

Los Angeles, California
September 25, 1956

PROPOSED CHANGE FROM FISCAL TO CALENDAR YEAR

Members

Clark L. Bradley, Chairman
Frank G. Bonelli
Ernest R. Geddes
Sheridan N. Hegland
Seth J. Johnson
Herbert R. Klocksiem

Eugene G. Nisbet, Vice-Chairman
Frank Lanterman
Thomas J. MacBride
Roy J. Nielsen
Earl W. Stanley
A. I. Stewart

Geoffrey Cook, Research Director

Cristine B. Harrison, Secretary

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ASSEMBLY INTERIM COMMITTEE
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MUNICIPAL AND COUNTY GOVERNMENT

Clark L. Bradley, Chairman

Meeting of the full committee to consider a proposed change from the fiscal to the calendar year. Police Auditorium, Los Angeles, September 25, 1956

Present

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Eugene G. Nisbet, Vice-Chairman
Frank G. Bonelli
Ernest R. Geddes
Herbert R. Klocksiem
Frank Lanterman
Thomas J. MacBride
Earl W. Stanley

Staff Present
Geoffrey Cook, Research Director
Cristine B. Harrison, Committee Secretary

Also present were the following:

Howard Allen, Southern California Edison
Murray Brown, League of California Cities
Oscar P. Castorina, Jr., Fire Fighters Assn. #1014
Vincent T. Cooper, County Supervisors' Association
Thomas J. Devlin, Los Angeles Examiner
Clair Donnenwirth, Supervisor, Plumas County
A.T. Eaves, Jr., Auditor-Controller, Santa Barbara County
Milton R. Farrell, Fire Fighters' Association, Local #1014
Clarke Gray, County Auditor, Ventura County
Wray H. Hansel, Fire Fighters Association #1014
W.A. Hard, Controller, City of Santa Monica
James H. Hastings, Auditor-Controller, Sacramento County
C.E. Kallal, Common & Property Taxpayers Association, Inc.
Lewis Keller, League of California Cities
George S. Kriz, President, County Auditors' Association and County Auditor of Santa Cruz County
Joseph M. Lowery, Auditor-Controller, Los Angeles County
C.V. Lyle, Vice-President, Common Property Taxpayers Assn. Inc.
William R. MacDougall, General Manager, County Supervisors' Association
Irene Mattox, Auditor, Imperial County
Leo D. Rapp, Auditor, Kern County
D.M. Teeter, Administrative Officer, Contra Costa County
Frank H. Thill, County Administrator, Santa Clara County
Maurice R. Uhler, Auditor-Controller, Fresno County
George Wakefield, Assistant County Counsel, Los Angeles Co.

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September 25, 1956
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CHAIRMAN BRADLEY: I will ask the Secretary to call the roll.

The following members responded to the roll call:

Bonelli
Geddes, E.R.
Klocksiem
Lanterman
MacBride
Nisbet
Stanley
Bradley, Chairman

We have a quorum of our committee present. This is a meeting of the Interim Committee on Municipal and County Government of the Assembly of the State Legislature. We are meeting under the authority of House Resolution 203.

Our subject for discussion today will be the proposed change from use by counties of the fiscal year to a calendar year basis, or some other basis as would appear to be necessary.

We have several witnesses who wish to be heard on this matter and I will call on Mr. George Kriz, County Auditor from Santa Cruz, who will introduce Mr. Lowery. If the witnesses will step right to the front here and use this podium, I think we can all hear. Proceed.

GEORGE S. KRIZ, County Auditor, Santa Cruz County: Mr. Chairman and members of the Committee, I

appear before you as President of the Auditors' Association of the State of California, at whose convention last February this proposal first germinated. It is not my intent to consume time that I would prefer be left for Mr. Lowery, who is the Auditor-Controller of Los Angeles County and the author of this idea. I would, however, like to say just this. You have before you the calendar of events which has led up to this particular meeting, culminated by another meeting which we just held at the Biltmore with the members of the Supervisors' Association and representatives of other groups, where we informally discussed this same subject.

Our purpose, as members of the Auditors' Association, is that which is also yours, and that is our interest in good county administration. We do not contend that this idea may be the only answer. We think it may perhaps suggest an answer and from it may come the ultimate solution to the problem which we consider to be threefold. One is, of course, financial, which is the greatest problem; the second one is budgetary; and the third one is a division of the work load which now seems to pyramid itself all at one period of the year in certain county departments.

As far as my own county is concerned, the problem as outlined in the sheet you have before you, is no different. Perhaps coming from a smaller county it merely scales down to a lesser degree than in other places. This past year our dry period financing has amounted to some $280,000,

which, frankly, gentlemen, is more than the amount of reserve that our county carries. To that end we have reached into other available county funds under the provisions of Section 31, Article 4, of the Constitution. We have been able so far, with one minor exception, to stay away from tax anticipation notes, which are quite a problem.

If I may be permitted, with that preliminary opening statement, to introduce Mr. J.M. Lowery, the Auditor-Controller of Los Angeles County, who will present the problem to you, I would like to have that pleasure now.

CHAIRMAN BRADLEY: May I also ask each witness to give his name and identify himself as to his county position.

J.M. LOWERY, Auditor-Controller, Los Angeles County: I am J.M. Lowery, Auditor-Controller of the County of Los Angeles.

(Mr. Lowery's prepared statement on the subject and its possible solution was mailed to the members prior to this hearing, and for purposes of continuity, is inserted at this point.)

PROBLEM

All counties, all school districts, most cities, and most special districts, are confronted with the intolerable problem of operating the first five or six months of each fiscal year without any general property tax revenue available to them. In most instances this is the major source of revenue. Private industry would be faced with this problem only once. Why should we accept it as inevitable? It doesn't make sense.

In the case of counties:

1. Valuations are not finally fixed until more than a month after the fiscal year begins.

2. Budgets in many counties are not adopted until August 30, two months after the fiscal year begins. Many counties needing to make capital expenditures during the first two month period, adopt their final budget prior to July 1.

3. Tax rates are not adopted until September 1, two months after the start of the fiscal year to which the proceeds of the levy are to apply.

4. The first half of the tax collections is not payable until November 1 and delinquent on December 10.

Under this peculiar operating structure, counties must now finance this so-called "dry period" by one of the following methods:

1. Provide a General Reserve fund sufficient in amount to finance this "dry period". This will work successfully in some counties. However, on the present scale of county operations, this would be unrealistic in most counties as the amount required would be too large. In Los Angeles County the general property taxpayers would be required to establish a general reserve in the amount of $57,000,000.

   If such a fund was feasible, it is always a temptation to use a part of it to hold down or reduce next year's tax levy, and that is exactly what has happened to the "General Reserves" which most counties had in the past.

2. Borrow money from other funds in the County Treasury which will not be needed before the proceeds from the first half of the tax levy become available for repayment. The authority for such borrowing is Section 31 of Article IV of the Constitution.

   This plan is fraught with complications and is frowned upon by everyone. Further, a county relying upon this plan of financing might find that there is not a sufficient amount of money in these other funds which will not be needed before the loan can be repaid. This plan of borrowing is limited to 85 percent of the amount of the tax levy, which is not known until September 1 when the tax rate is adopted.

3. Borrow from banks upon tax anticipation notes. This method of borrowing is limited to 50% of the amount of the tax levy, which does not become known until the tax rate resolution is adopted on September 1. In Los Angeles County this method would not produce the amount needed, due to the 50% limitation.

4. A combination of a General Reserve and borrowing either under the Constitutional authority, <u>or</u> tax anticipation notes. You cannot legally use both methods of borrowing.

<u>SOLUTION</u>

CHANGE THE FISCAL YEAR TO COINCIDE WITH THE CALENDAR YEAR.

<u>How</u>:

1. Amend the Constitution

2. Amend a multitude of statutory provisions or possibly a blanket amendment.

3. Some possible Charter amendments.

4. And the real stumbling block, adopt a budget for an eighteen (18) month period the first year of the change-over. This extra six months in the budget can be financed by: -

    (a) Application of any General Reserves (as they won't be needed any more.)

    (b) There will be two (2) collections on unsecured personal property in the first 18 month period.

    (c) Provide the necessary sum through annual accretions to an accumulated reserve over a five year period preceding the change-over. (Similar to Accumulated Building Fund.)

    (d) Authorization of a State bond issue, the proceeds of which would be loaned to the various local governments, to be repaid over a period of ten years.

    (e) Or any combination of the above.

BENEFITS

Property tax revenues necessary to finance operations will be available at the beginning and during the year for which they are provided.

Borrowing with its multitude of complications will be eliminated.

In all cases, the budget will be adopted prior to the start of the year to which it is to apply.

Valuations will be finalized before the budget and the tax rate resolution are adopted.

The due date could be extended from November 1 to December 1 and the delinquency date could be extended from December 10 to January 10, using the extra thirty days to relieve the pressure along the line on the assessor, auditor,board of equalization, and tax collector.

Note that the first Monday in March lien date, which has proven to be inviolate in the past, is not affected.

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LOWERY: Mr. Chairman and gentlemen of the Committee, you have before you a brief outline of what the problem is, what the proposed solution might be, and some of the benefits that would accrue if a change could be effected. As Mr. Kriz mentioned, it is more than just the financing of the dry period that is involved here, as far as counties are concerned. That is, it includes the adoption of a budget which now in many counties is adopted two months after the beginning of the year to which it applies and the adoption of a tax rate two months after the year for which the proceeds of the tax levy apply, which is a real problem that should be solved.

Counties must start operating July first by making expenditures principally for salaries before any of

the tax revenue that is provided for that year is available. We have about five or possibly six months of such operation, and in the meantime we must borrow in order to finance that program. The borrowing processes are two: One, a Constitutional authority, Section 31 of Article IV, which authorizes the Board of Supervisors to direct the treasurer to transfer from funds in his custody that will not be needed before the next tax proceeds are available to funds that need such money, to be repaid from the first proceeds of the tax levy. The loan must not exceed 85 percent of the tax levy.

The other method of financing during that dry period is through tax anticipation notes, which is limited to 50 percent of the amount of the levy made for taxes on general property. Now, even the assessed valuations are not finalized until a month after we start the fiscal year in which the revenues that will be provided by those values are available. So, we are working with a rather backward type of program. We have tried at different times to solve this by changing the lien date, which is the first Monday in March at noon, but that's established as a rather sacred date that can't be touched. The farmer and the business man, as a matter or experience and tradition, fixed that as the date of lowest inventory, and to change that is going to be rather a difficult thing to do. We have tried in the past to move it back but were unsuccessful. This problem has been talked about and solutions were

considered many times previously. We just haven't sat idly by and accepted it as inevitable, although that is what it amounts to, because nothing has been done over the years.

We should have some kind of a program - an operating program - that will be reasonable and will do away with this problem of borrowing money while we are operating our governmental functions. It applies more acutely to counties and school districts than it does to cities. Cities have revenues other than taxes and in greater variety than do counties, or school districts, so that they have revenues coming in during that period to tide them over that so-called dry period; so their problem is not so acute as that of the counties or that of the school districts. Yet the solution must be considered for all public agencies because they are involved to a degree.

BRADLEY: Mr. Lowery, may I interrupt you? It's not fair to you to have this going on now while you are talking, so let's just take a one minute's recess here and you just stand by while we get this chair situation straightened out. Now we are all set. Thank you, Mr. Lowery.

LOWERY: The counties have been operating on a budget since 1927, which dates back quite a ways. In the beginning it was provided that a general reserve should be available to finance this dry period, and counties operated on that program with a general reserve sufficiently large to meet the expenditure requirements of that period.

But then the depression came along and the boards of supervisors in their wisdom decided that it would be better to use up these general reserves and not allow the tax rate to increase, due to the additional burdens placed upon counties for work programs to augment the State and Federal programs that were in process at that time. So, in our county the general reserve, which at that time was $13,000,000 and was sufficient to finance us through the dry period, was used up in a period of three years to hold down the tax rate. It has never been built back up, so we have had to resort to this constitutional provision for borrowing from other funds in the custody of the county treasurer, pending the receipt of taxes.

Everyone involved with that type of program frowns on it. It isn't good financing; it is not a good business-like procedure. First, because there is that sanctity of funds that exist in governmental operations. One fund is not available for the purposes of another, and yet under this constitutional provision the Board of Supervisors can take money away from one fund to loan to another. Of course it is repaid but in the meantime it is being used by another fund, which in a sense violates that accepted sanctity of funds. The other method is borrowing on tax anticipation notes, limited to 50 percent of the tax levy, but that cannot be done until the tax rate is fixed, which is in September. You must, therefore, go along for two

months without the availability of proceeds from tax anticipation notes, so there is a difficulty there.

Now, a combination of a general reserve, borrowing through tax anticipation notes, or use of the constitutional provision, is what is resorted to now. It is any of them or a combination of all. Of course if you borrow, according to our County Counsel, you are limited to the minimum requirement, or minimum ceiling, which is the 50 percent allowed on tax anticipation notes, even though the constitutional provision allows a borrowing up to 85 percent of the tax levy. So, in our county, there are times when 50 percent of the tax levy is not sufficient for the borrowing program.

Now my proposal is to change the fiscal year from one starting July first to one starting the following January first. Under that plan, all proceeds from tax levies will be available before the start of the year to which they apply, that is, before or immediately at the start of the year, so that we won't have the problem of borrowing. All general reserves that are now in existence can be used to reduce the tax levy of that first year of transition because they won't be needed any more; they won't need any fund for financing the dry period.

The budget will be adopted on the regular statutory date, which is the 30th of August, and before the year to which it applies begins. At the time the budget is adopted -

now I am speaking of counties - the valuations will be finalized and fixed so the Board of Supervisors will have before them, when they adopt the final budget, the valuation, which is the other factor that determines the tax rate. Now, they do that as of the 30th of August, which presently is two months after the year to which the operation applies has begun. Then the tax rate could be adopted on the present date, September 1st, and the first half of tax collections available on December 10th. The year would start January first and the money would be provided for the year for which it was levied.

Now to do that it would be necessary to amend the Constitution. The Constitution specifies what the fiscal year shall be. There are some variations in fiscal years in some of the cities. I think Pasadena is one city that has a fiscal year other than July to June 30. I think it begins October first. The statutes would have to be amended in many places to give effect to a changed fiscal year. There would have to be some charter amendments because many of the charter cities specify the fiscal year that the city will follow. But the real stumbling block is to finance an eighteen month budget for the first year in which you switch over. In other words, when you switch from July 1st to June 30th to a year beginning January 1st, that first budget would have to be for 18 months, rather than for a year, and in round numbers, the tax rate would be

50 percent higher, everything else being equal. That isn't exactly true because there are some modifying influences, but it is my opinion that no board of supervisors would accept that. They couldn't increase their tax rate by 50 percent that first year; but then it would drop back to normal after because the year following would be for the duration of a twelve month period, rather than 18 months. There could be ways to offset that particular obstacle. One of them I have listed here - the use of any general reserves that are now in existence and because they won't be needed any more, they can be used up and spent during that first year.

Then another modifying influence there is that during the 18 month period there will be two collections from the unsecured roll, that is the personal property and the unsecured roll, which in this county is about ten percent of the money collected from taxes. So there would be twice that ten percent collected in that 18 months period. The unsecured tax roll produces its revenue as of August, so there would be two August periods in that first budget. Then there could be a program whereby an amount would be set up for a series of years, say five years, to create a fund necessary to finance that extra six months, somewhat similar to the accumulated building fund which is now authorized by the statutes. That would provide a portion of it each year so that the

impact would not be too great. There should be a statutory enactment to specify that it is for that purpose only and can't be used for any other purposes, because there might be a temptation to use it to appropriate for this or that or some other important project that might come into existence during that period. It would have to be specifically for that purpose. I don't know what it might be called but it would be similar to that accumulated building fund which is now authorized by statute. Or, I also suggested that maybe the State would provide a fund from which the various public agencies that would need additional money could borrow and repay over a period of years - five or ten years possibly - and thereby reducing the impact.

Now if this could be accomplished, the benefits would be many. In my presentation I have touched on some of them but the property tax revenues necessary to the financing of a given budget year would be available when that year starts and during the year. And all of the borrowings, with all of the multiplicity of problems that result from it, would be dispensed with. We would have no need for borrowing. And in all cases, so far as the counties are concerned, the budget would be adopted before the year to which it applies began, and the valuations would be finalized before the adoption of the budget. All of these operating programs would be finished operations before they were needed to determine what tax rate should be applied to the property of the property owners.

Now, the December 10th due date could be extended possibly into January - January 10th - to give an extra month to the various county officers in their operations which are now compressed in a terrific pressure period. The assessor, the auditor, the tax collector, and the County Board of Supervisors, sitting as a board of equalization, could divide that extra month between them to relieve some of that pressure. Under this plan, the lien date, which up to now at least has been considered sacred and could not in any way be changed, could remain 12 o'clock noon the first Monday in March.

The idea is that this be a subject for study and consideration over a period of time and we will not come up with answers now. I have presented this problem, as it were, to Bud Carpenter, Director of the League of Cities. He agreed to discuss it with members of the Finance Officers' Department of the League and they have discussed it some. I have referred it to the Department of Public Instruction. Mr. Wright, Associate Director, has indicated that they will support a program similar to this because with school districts the problem is very acute and the answer probably can be developed over a series of meetings by all of those concerned in the course of several years. I don't think we will have any answers before the next session of the Legislature, or have any bills proposed that afford a solution. It is a long time study program.

We had a meeting this morning of a Supervisors' Association committee - a breakfast meeting - and discussed this informally. A great many good ideas came out of that discussion, and demonstrated very definitely that it isn't something that can be buttoned up in a hurry and be satisfactory in every case. That's what we want - something that all of us who are affected will agree upon as being the satisfactory answer. I don't believe that the next session of the Legislature will receive any program of solution to this problem. It will take study on the part of your Committee, aided and helped by the various committees that might be formed, such as the Supervisors' Association Committee and the County Auditors' Association; and the League of Cities will probably appoint a committee in their finance officers section to study it, and in other sections of the League. It will take time to really develop the right answers. Maybe we have some of the answers, or some that can be used in part now, but we don't know for sure. It wasn't my intent that what I put down here was the solution to the problem. It was my idea of what might be considered as solutions. It's a problem we have and it is a very acute problem, but it must be solved. However, I think the approach is a long-term approach.

I think I have set forth the problem and how we might approach a solution. Unless there are some questions, I think that's it.

BRADLEY: Thank you, Mr. Lowery. You stand by for just a moment now. Are there any members of the Committee who have any questions to ask Mr. Lowery?

ASSEMBLYMAN MacBRIDE: I have a question. Mr. Lowery, in setting up this sinking fund, if we may call it that, which you suggested as extending over a five or six year period, won't you be required to actually anticipate what the budget for the six months' period is going to be five years hence?

LOWERY: Well, to a certain extent we will, Mr. MacBride. We will have to anticipate what the future requirements will be over a five year period, based upon what we have experienced in the past and subject to any trends that might be in the picture.

MacBRIDE: Not over a five year period. I'm thinking now that you are saying that you are going to set up an equivalent of your present building fund to take care of this six months' period, this dry period that is going to occur five years from now.

LOWERY: Well, no, Mr. MacBride. The accumulated fund will be to finance a six months' budget program.

MacBRIDE: That's right.

LOWERY: It is not to simply be a loan fund but will in fact be the amount of money that would be necessary to pay the expenditures for six months of operation so that the tax rate at that time won't have to

be jumped up to about 50 percent of what it would be for one year.

MacBRIDE: I understand that, but this money that you are going to set aside is money that will be accumulated to defray the budget expenses for the sixmonths' period five years from the time that you start the program.

LOWERY: Yes.

MacBRIDE: In other words, it's not your plan that you are going to start the 18 month period right now. It is five years from now.

LOWERY: Oh no, it would have to start after the money is provided.

MacBRIDE: That's right. Therefore you would have to anticipate what the budget is going to be for that 6 months' period which will occur five years from now.

LOWERY: Yes, but we could be fairly reasonable in arriving at that amount. We wouldn't be too far off.

MacBRIDE: Thank you.

BRADLEY: Mr. Bonelli, do you have a question?

ASSEMBLYMAN BONELLI: Mr. Lowery, you are an authority on this matter and I, of course, am not. With that in mind, I would like to propound an idea. Supposing that this was to be worked on a basis similar to the Federal program - the Rumhl Plan - is there any possibility that a year's taxes could be waived and you would go on a prepayment basis in lieu of a payment at a later date?

Would that in any way or is there any possibility that a program of that kind could be . . . ?

LOWERY: Well, that is somewhat the program we are on now. We are operating now for six months before we get tax revenue. We can get other types of revenue, however.

BONELLI: I was thinking that the tax revenue for this year, for example, was not for payment of taxes that are late. It would be a pre-payment for taxes that are due.

LOWERY: But how would you finance the present budget for which those taxes were levied?

BONELLI: Well, you would be late at the start but I would think that your proposed program is going to be substantially the same thing.

LOWERY: It has to be just in the reverse, Mr. Bonelli.

BONELLI: Does it?

LOWERY: You have to get the money in first to apply to a future period rather than operating dry for a period and then saying, we have the monies now - because the borrowing wouldn't allow you to spend - you might borrow to finance a period but it has to be repaid. It can't be spent.

BONELLI: Well, we don't seem to be either on a prepaid basis or in between apparently at the present time.

LOWERY: That's right. We are right in the middle and, as a matter of fact, when we repay that borrowing from

the first proceeds on December 10th we are dry again and we have to borrow in January for January, February, and March expenditures, to be repaid in April. It is a second operation to finance a second dry period. Of course if we can cure the first one, the second is automatically cured.

BONELLI: That's all, Mr. Chairman.

CHAIRMAN BRADLEY: Any questions? Mr. Stanley?

ASSEMBLYMAN STANLEY: Yes, I have a couple here I would like to ask. First, and a simple one, this money that you borrow now from other funds, do you pay interest on that money?

LOWERY: No, we don't. When we borrow under the Constitutional authority, there is no charging or crediting of interest.

STANLEY: Normally that fund could have its money out at interest, so they are losing by that . . .

LOWERY: Well, if they were special funds that would have an apportionment of the interest earned, yes, but most of them are not. They are trust funds, or other funds under the control of the Board of Supervisors, that will not be needed before the taxes are available, such as building funds, bond issue proceeds, and so on; but those funds that receive an apportionment of interest are not affected, principally the school district funds. We do not apportion any of the balances of school district funds for the benefit of the County, or County operations. The

school districts also have a problem and in this county they also utilize this constitutional authority and have the Board of Supervisors authorize transfers from their own funds that have surpluses to funds that need it. To date this year there are probably fifty school districts in this county that have done it for this year.

STANLEY: Do other states have this same problem?

LOWERY: Not necessarily. Most of them operate on a basis whereby the revenue is available when they start.

STANLEY: What might you anticipate in the way of opposition to this program?

LOWERY: The big obstacle, as I see it, is that the supervisors cannot accept a terrific increase in the tax rate if there was just the change in the fiscal year and the year of transition required provision for 18 months of expenditures.

STANLEY: But if they did assess for 18 months, then I can't understand why you are putting off for five years to . . .

LOWERY: Well, putting off five years is to provide time to increase the tax levy a little bit each year to provide a fund that will finance that six months' period without a great burden on the taxpayer at that time. It will ease the burden over five years.

STANLEY: This might be entirely wrong, but wouldn't it be possible to assess for 18 months, with a

privilege to the taxpayer of paying a 12 months' assessment pro rate when due and deferring six months over a five year period - on which you could borrow the latter?

LOWERY: That is something that could be studied. There is a possibility there of a three payment levy, but . . .

STANLEY: Which would be optional with the taxpayer. . .

LOWERY: . . . but they would still have that extra burden of 50 percent of increase in the tax rate, or approximately that. It wouldn't be that much but just speaking generally, that is what it would be. However, it may be that that would be a softening by allowing three payments of the taxes. Still it would conflict with the taxpaying period for the next year because we don't propose changing any of the taxpaying dates, so that third payment would . . .

STANLEY: You have to start it some place for 18 months, don't you?

LOWERY: Yes, and that's where the burden is. We just can't seem to find the right answer, at least in what I have offered here. There are probably solutions that the taxpayer can accept without feeling that he is unjustly dealt with and which various legislative bodies of the local government can accept without feeling that we were placing too much of a burden on the taxpayers.

STANLEY: There was one other statement you made about the payment of personal property . . .

LOWERY: The personal property tax.

STANLEY: You would pay two times you say. I don't understand that.

LOWERY: Well, that's payable in August and it becomes delinquent in August. That is the second month of the fiscal year to which it applies. Well, in an 18 month period, you would have two August dates.

STANLEY: Well, would they be assessed for a two year period though?

LOWERY: No, they would be just assessed for . .

STANLEY: For eighteen months.

LOWERY: No, they would be assessed for one year at a time but there would be two periods of tax collection on the unsecured roll. You see the unsecured roll receives last year's rate. Last year's realty roll rate is applied to the unsecured roll, which is mostly personal property and is owned by people who don't own real estate.

STANLEY: Yes, but your next payment - wouldn't that be for half of that rate?

LOWERY: No, it would still be for one year.

STANLEY: Well, then you mean you can't change that without their paying six months additional taxes?

LOWERY: Well, the thing is that the tax rate would be increased by 50 percent and then in the second

year the rate that would apply to the personal property, or the unsecured roll, would be 50 percent higher. In other words, it would have to bear its impact of the 50 percent increase, as well as the real estate and improvements.

STANLEY: Now you mention that this can't be done now - that we shouldn't propose a Constitutional Amendment at the present time. The only reason for this that I see under your argument is that a method of financing this 18 months must be found first, is that it?

LOWERY: Well, that is one of the problems. If we solve that, we solve two other problems; one of adopting a budget before the year to which it applies begins, and the other of fixing a tax rate before the year to which it applies begins. My thought is that this deserves a terrific amount of study and consideration that we can't jump into now. We don't have the answers here . . .

STANLEY: It occurs to me you have a pretty clear cut problem that you should get corrected. It's definitely a problem that should be taken care of.

LOWERY: I think we all feel that way but we've accepted it in the past. We felt that it was inevitable and did nothing about it, that is, nothing concrete. We would start off and when we would run into opposition, we quit.

STANLEY: Yes, but you can continue to do that or you could do something about it - and that's of course two different things. You have made a good start here, at any rate.

LOWERY: Yes.

STANLEY: I have no further questions.

BRADLEY: Mr. Lowery, I have a question. Specifically, are we dealing with Article IV, Section 34, of the Constitution that . . ?

LOWERY: Section 31, Article IV. That is one of the methods of financing during a dry period. That's one of the authorities that makes it possible for us to borrow from funds in the treasury.

BRADLEY: Oh, I see. Now, is there any Constitutional provision which determines how a county shall operate, whether it be on a calendar year or a fiscal year in the State Constitution?

LOWERY: Yes, the Constitution specifies what the fiscal year shall be. It specifies July 1 to June 30.

BRADLEY: Oh, I see. Therefore, your proposal does require an amendment.

LOWERY: Yes sir.

BRADLEY: Now, has any thought been given to the proposition of a Constitutional Amendment which would make it possible for a county to operate at either a fiscal year or a calendar year; and if that were possible, what complications, if any, would result if you had some counties on a calendar year and some on a fiscal year?

LOWERY: Well, I think the Constitution could be amended to make it permissible for the Legislature to

direct or determine what a fiscal year should be for a given public agency; but I think all counties would have to be on the same basis. But if all counties and all cities and all school districts were not on a uniform basis, there would be complete confusion as to reporting and as to comparison with previous years. Now we all must report to the State Controller on operations of our previous fiscal year. If he got some reports on the basis of July 1st to June 30th, some on January to December basis, and some from October 1 to September 30, or whatever they might be, he would be confused to the utmost. There would be no comparison of figures. He couldn't compile them into a uniform statement saying, this is the picture of cities' operations in the State of California for various fiscal years. It would have to be for one common period, so I think that we would have to all come up with the same answer so far as our operating period is concerned.

BRADLEY: Well, what I had in mind was possibly to provide a period where the counties of the State, if the general proposal were deemed to be advisable, could be in the process of changing through the accumulation of their own funds, thereby making it unnecessary for some counties to borrow from a central source set up by a special bond issue provided by the voters of the State (which you suggested as one possible solution) while other counties in that same period would perhaps be able to reduce the

amount that they would have to borrow. We need, however, a specific concrete figure as to what such a financing program would amount to.

LOWERY: I think there would be too much confusion unless the change-over affected all the public agencies alike at the same time.

BRADLEY: If a constitutional amendment was enacted, it could be worded to go into effect at a specific later date; and the various counties would then plan during that interim period to meet the change-over. Are there any other questions?

STANLEY: I would like to ask one further question. Would it be feasible, rather than set up an 18 months' period, to set up a six months' period, and then go to the yearly period?

LOWERY: Well, the answer to that is the tax levy for the six months' period would be collected at the same time as you would collect for the following year's period, so you would have the same situation.

BRADLEY: Mr. Geddes.

ASSEMBLYMAN GEDDES: Mr. Lowery, I am trying to clarify this for the benefit of myself. This money that we need to take care of the dry period in the Year E, which would be the effective year, is not necessarily a full six months' expenditures, is it?

LOWERY: No, it is more nearly a five month expenditure period.

GEDDES: In other words, when you figure your budget, you will take into consideration the subventions which are either from the Federal or from the State governments, and the periods provided in the law as to when they will be paid, unless it was necessary that they be paid to coincide with the new program. In essence, what you are proposing is that the carry-over fund, that is the surplus available at the beginning of the fiscal year, which is now some percentage in most counties, I presume, of the anticipated money that they will have available, that that be increased to a certain percentage which will take care of that six months' period. It would be accumulated and held in reserve and you would just be swelling that first item in your budget during the previous years, if it were done that way.

LOWERY: Well, no, it isn't exactly that, Mr. Geddes. We are now required to apply all available surplus to financing a new budget in counties . . . .

GEDDES: But what you need to effect this is a provision that this available surplus, or a portion of the available surplus, could be accumulated to use at a future year.

LOWERY: Yes, it could be that way, or it could be an item set up as a specific appropriation to be increased each year until the proper amount was accumulated.

GEDDES: That's right. Then if the study that you are suggesting were made, we would take the present year,

or some year where we have the figures available - a current year would be good because it is right up at the peak in most instances - and we could make a pretty reasonable estimate as to what that total amount would be, whether it was to be accumulated or whether it is to be from a State loan from a bond issue, as you suggested. The bonds could be sold and the monies accumulated by selling them over the period so as to protect the bond market, instead of selling them all in one particular year - that is, if the amount is particularly large, they could be sold under the get-ready period. Then the money would be available and the extra burden of repayment would occur in future budgets of the counties.

LOWERY: Yes.

GEDDES: That's all.

BRADLEY: Thank you, Mr. Geddes. Do you have any idea, Mr. Lowery, what size of a bond issue you would have to have?

LOWERY: No, I don't. I wouldn't even know how much this county might borrow because we have 117 school districts in this county and many of them also have to resort to borrowing. I don't know how many cities might be in the picture, although they wouldn't be as acutely affected as school districts. Maybe some of them can even get by without borrowing.

BRADLEY: Thank you, Mr. Lowery. Mr. Cook has a question, Mr. Lowery.

GEOFFREY COOK, Research Director, Assembly Committee on Municipal and County Government. Mr. Lowery, do you have any idea as to what is the proportion of other states using the fiscal year, as compared to use of the calendar year?

LOWERY: No, I don't but I could determine that for the Committee. It wouldn't be too difficult to get that information.

COOK: You have no idea now as to what it is.

LOWERY: No.

COOK: You mention the fact that you consider the March first lien date to be inviolate. Could you expand on that just a little bit?

LOWERY: Well, we have tried at various times to convince various taxpayer groups that that date should be moved back to give more time to the assessing process and to allow for the moving back of the collection date so that the money would be available more nearly with the dates of the operating year. We never got beyond the discussion stage because the Farm Bureau, for one, said that that is the time the farmers must have for the lien date because that is when their inventory is nil, or close to it. Business men have given the same reaction. "We are accustomed to reducing our inventories to a point of lowest value as of the first Monday in March. Don't change it." So, we haven't been able to move that. Now, there may be new arguments

offered to justify moving it back. If that were to be done - if it were moved back a few months, maybe six months, maybe less than six months, along with the whole calendar of dates, so that the first half of the tax collections became available early in the fiscal year beginning July first, maybe that would solve the problem.

COOK: If all of those dates were moved back, would that, in effect, pretty well solve your problem?

LOWERY: Very definitely.

COOK: And would that require a constitutional amendment to make that change?

LOWERY: Yes, because the lien date is fixed in the Constitution.

COOK: In other words, so far as a Constitutional Amendment is concerned, either proposal would assume the same proportions.

LOWERY: I am pretty sure that lien date is in the Constitution. I wouldn't be able to state positively.

COOK: George Wakefield indicates that it is in the Constitution. This morning I brought up the possibility of discounting taxes if they were paid at an earlier date. Would you care to make some comment on that at the present time?

LOWERY: Well, that is a possibility of bringing in money in advance of delinquency dates. Of course the large taxpayers wait until the last possible moment to pay

their taxes because they earn interest on their money as long as they can. If they were permitted to pay their tax at a discount, I think they might pay it earlier. That is a possible consideration. Of course it involves problems of accounting for taxes and keeping a proper control. I hear murmurs behind me from auditors to the effect that they wouldn't want anything like that!

COOK: Maybe they would prefer tax payments on the Rumhl Plan basis in preference to that! Those are all the questions I have.

LOWERY: Mr. Kriz points out that the discount program would not bring in the tax money in any great volume as soon as we would actually need it. The present November first due date wouldn't be of too much advantage. They would have to amend the statute to bring it in, say July 1st, but we can't do that because there is no tax levy then. We haven't fixed the budget and we haven't fixed the tax rate until September so they couldn't possibly pay it until those tax rates are applied to the valuations, extended, footed, and delivered to the tax collector and he prepares the bills - and that's November 1st.

BRADLEY: Thank you, Mr. Lowery.

ASSEMBLYMAN MacBRIDE: Excuse me, Mr. Chairman, I have a question.

BRADLEY: Go right ahead, Mr. MacBride.

MacBRIDE: I don't quite understand why the setting of the lien date back would solve all of the

problems. Will you explain that again, please?

LOWERY: Well, it wouldn't solve it, if that was all you did. You would have to move back the budget adoption dates so that you adopted a budget prior to the beginning of the fiscal year; you would have to move back the tax fixing date prior to the fiscal year; and then you would also have to move back the collection dates. Instead of November 1st as the due date and December 10th as the delinquent date, for the first half, it would have to be July 1st due and August 10th delinquent.

MacBRIDE: I see. Thank you.

BRADLEY: We will now hear from Mr. Teeter who is the Administrative Officer from Contra Costa County. Mr. Teeter.

MR. D. M. TEETER, Administrative Officer, Contra Costa County: Gentlemen, I am in deep sympathy with all of the difficulties that Mr. Lowery has explained and I believe that if anything, he may have under-emphasized the difficulties of bringing about the solution that he proposes. For one thing, I think it would be a long time campaign to get the school people to agree to splitting the school year between two different fiscal years. A school year is related also to the State fiscal year, and it seems to me that the whole program keeps backing up to where ultimately you should ask the Federal Government to change its fiscal year to the calendar year too, because a great many of the

subventions provided by the Federal Government are based on the existing fiscal year and appropriations are made that way by the Congress. Now I think it is worth studying. I think it's something that we should eventually bring about, if possible. However, I have a suggestion that I would like the Committee to consider that I think would give us some immediate relief and whether or not it would be a permanent solution would remain to be seen.

As Mr. Lowery has pointed out, the lien date for taxes is noon the first Monday in March. Now the amount of those taxes can't be determined until the budgets are adopted, but I think the bankers know, like the rest of us, that taxes are as sure as death, and that lien provides them adequate security on which to make loans, even though the amount has not yet been determined on July first when they need to do the borrowing. If in place of the present tax anticipation warrant procedure there was substituted authorization for the counties to borrow for their general reserve such sum as is estimated to be needed after July first, they wouldn't have to borrow all their requirements on one date but they could borrow for their general reserve which in turn could be advanced to the funds needing the money immediately. If that were done, we would be putting ourselves in the same position as the Federal Government. We would not be violating Section 18 Article 11, of the Constitution which says that no counties or school district may expend in one year more than the revenue provided

for the year because what you would be borrowing in that case would be used for expenditures and you would be paying back a loan during the fiscal year for which the borrowing was made.

In the average case, I think the cash position of the counties throughout the State isn't what affords the difficulty. There is cash in trust funds, in bond redemption funds, building construction funds, and so on, already available in the county treasury. Under the alternate tax apportionment method, which the Legislature authorized in 1949, it is possible for a county to credit to each fund a resource representative of the tax levy made for the year and the treasury normally would have no difficulty in meeting with cash the demands against the funds which have the credit for that resource.

Now, regarding the moving back three months from that date to July 1st to fill in with this borrowing from the banks - the Federal Treasury does it and the State Treasury, I believe, does it. Neither the Federal Government nor the State government has the statutory control that is placed on the counties, cities and school districts by Section 18 of Article 11, and they can actually spend more than the revenue provided for the year. They can spend up to the amount budgeted for the year, whether or not the legislative body provided revenues to cover it or not. We can't do that but we could during this short interval, it seems to me, if this advantageous borrowing were made

available to finance us over that drought period.

BRADLEY: Mr. Teeter, do you think that would be sufficient to meet the needs of a large county like Los Angeles?

TEETER: If you placed the limit at 65 or 75 percent of the previous year's tax levy for all purposes.

BRADLEY: Then you think it would.

TEETER: I think it would. That, I think, could be accomplished by legislative enactment without any constitutional amendment; but I still think this fiscal year program needs to be worked on - that changing of dates.

BRADLEY: Now, in accordance with your suggestion, Mr. Teeter, the fiscal year would remain the same then.

TEETER: Yes. Only the treasurer of the county, with proper safeguards, wuch as auditor participation, and authority of the board of supervisors, would advertise for bids on short term loans. There would be some expense connected with it, aside from the interest, but not as much expense, I believe, as is connected with issuing tax anticipation warrants; and you would have only one agency involved - the county treasury.

BRADLEY: And yet that would depend entirely, would it not, on the willingness of the banks of a given county to make the loan?

TEETER: Banks, insurance companies, retirement funds - many sources.

BRADLEY: Are there any questions of Mr. Teeter?

MacBRIDE: I have a question, Mr. Chairman. This money that you would be borrowing on the short term loans, would it be for both maintenance and capital outlay?

TEETER: It would be for any purposes that are required during the operational period.

MacBRIDE: Well then, your suggestion would not solve the problem that is involved in having the budget adopted?

TEETER: No, I'm speaking only of the financing.

MacBRIDE: I see. Thank you.

TEETER: I still think those dates should be worked on - the budget year - or at least the budgeting process.

MacBRIDE: You agree that the budgeting process should be made more businesslike.

TEETER: Yes.

BRADLEY: Are there any other questions?

ASSEMBLYMAN STANLEY: Under your plan, then, there would be about a million, three hundred and fifty thousand dollars interest added to the present cost to the taxpayers, wouldn't there?

TEETER: Well, I look on it this way: Most of your taxpayers, I think, will tell you that they can earn more money on their capital if they are allowed to keep it, than an entity like the County, paying tax-exempt interest, has to pay for

borrowing its money. Now instead of building up reserves as we have been asked to do in the past and which we have done and twiddled away, we would be leaving the money with the taxpayers and paying interest instead at a smaller rate than they would have to pay to the banks or funds.

STANLEY: You mentioned some reasons why the school people wouldn't be in favor of this. Would you repeat that?

TEETER: It would split their school year between two different fiscal years. The school year as it is presently organized extends from September to May. They would have to budget each year for half of an existing school year and then for the beginning of the next school year.

STANLEY: Are they making that objection to this suggestion?

TEETER: I don't believe they have had a chance to discuss it yet.

STANLEY: I thought they were just as anxious to get their money in as the counties would be.

TEETER: But you do present them with pretty serious budgeting problems.

STANLEY: Oh, I imagine so. Anything we change like this - just like driver education - is a big problem but we put it in, and it has worked out. That's all, Mr. Bradley.

BRADLEY: Does any other member of the Committee have a question? Mr. Cook?

BRADLEY: Thank you, Mr. Teeter.

MacBRIDE: I have another question I would like to ask. I'm sorry, I thought Mr. Cook was going to ask a question. As I understand it, Mr. Teeter, in reply to Mr. Stanley's question with reference to the interest that would have to be paid on these short term loans, your reply was that the taxpayers would figure that they could do better if this interest was paid on these short term loans than it would be if their money, so to speak, was taken out of circulation for this build-up period for five years. Is that correct? In other words, they can use the money better themselves during that five year period.

TEETER: Over the five year period they would be building up such general reserves of probably a hundred million dollars.

MacBRIDE: I can appreciate that but actually, sir, you are referring just to this one five year period. That would be the period that the taxpayers might object to so you want this thing to go on forever, so to speak, on this short-term loan basis in order to avoid just this one five year period inconvenience. Isn't that what it amounts to? In other words, we know that once the five year period is built up - once the hundred million has been accumulated - and the transition takes place, then the taxpayer no longer has that argument, does he?

TEETER: No, that's true. As I said at the outset, this is something that would relieve the existing situation, I think, relatively soon. I think the other would take from five to ten years. In the meantime we will be struggling with cash shortages in the counties and the special districts, during all those intervening years. Or maybe some of the governing bodies of the counties, school districts and special districts, will be moving toward building back a reserve to overcome it during that period when we are resolving this whole problem.

MacBRIDE: Yes, sir. Basically though, you oppose the changing from the fiscal to the calendar year.

TEETER: No, I merely point out the enormity of the problem we have to solve in doing it. I don't think it can be done in any five years and maybe not in ten years. In the meantime we are struggling with cash shortages in many of the jurisdictions between July 1 and November.

MacBRIDE: And it is your hope then that over this ten year period, by the use of these short term notes, that it might be possible that the various counties could build up some sort of a general reserve upon which they could ultimately call to defray this six months tough period.

TEETER: They couldn't use it for that purpose. It would simply give them a general reserve through borrowing that they don't now have.

MacBRIDE: But there is nothing included in this plan of yours, sir, which would finally give us the hundred

million dollars that we need if and when we do try to put through this transition.

TEETER: No, there isn't. There is a chance to do something immediately to relieve a situation without going through the enormous process that is going to be involved in persuading the school people, special district pecple, the State of California and the Federal Government that they could fit into this kind of a calendar year fiscal program.

BRADLEY: Mr. Teeter, let me see if I have this straight. Your suggestion merely requires a legislative change in the law, not a constitutional amendment. By making this legislative change in the law, you will enable the counties at the present time - immediately, in other words - to borrow on short term loans in advance against the general reserve of the county to help to alleviate the dry period. It could go on indefinitely if that were done and if that was the general policy adopted by the county. But it is subject to, in your opinion, objections by the school people as it would split their school year.

TEETER: The proposal to change the fiscal year, I think, would precipitate a great argument, Mr. Bradley.

BRADLEY: Am I wrong in saying that if your plan were put into effect by legislative enactment there would be no objection by any governmental agency?

TEETER: No what?

BRADLEY: Would there be any governmental agency that would object to the plan?

TEETER: I don't know why they should.

BRADLEY: I see.

TEETER: It becomes the optional thing with each county.

BRADLEY: I misunderstood you. I thought you said there was a possibility of objection by the school people under your plans, but apparently there would not be.

TEETER: No, because the county may advance from the general reserve to a school district, pending receipt of their funds.

BRADLEY: In other words, and again summarizing, by your suggestion, there would still be a much smoother operation, less work involved, and, as Mr. Lowery has pointed out, many related problems could be solved if the Constitution were amended and funds provided to take care of this 18 months financing period under the change of the fiscal year to the calendar year.

TEETER: I have no objection to this plan. I merely fear it may be difficult.

BRADLEY: I see. Still it could be done your way at the present time by legislative action.

STANLEY: Mr. Bradley, I have a question. May I ask, what is the difference between your suggestion and using tax anticipation notes?

TEETER: Well, at the present moment, tax anticipation warrants will not let the borrowing agencies borrow until

the tax levied for that particular year has been determined and the borrowing must be done by the different jurisdictions. You might have four school districts which need to borrow. Each of those trustees would have to go through the process. The County may have to borrow and it has to go through the process. It becomes expensive from the administrative standpoint, whereas if it were treasury borrowing, it is concentrated at one point.

STANLEY: Thank you.

BRADLEY: Mr. Bonelli, do you have a question?

BONELLI: Mr. Teeter, your alternative then would be a means of overcoming the dry period at the cost of interest at the present time, even with the thought in mind of the ultimate change at a later date, but it would relieve the dry period and give you a means of more adequately handling your financing and changing it so that it would be more adequate to cope with your problems.

TEETER: Yes, sir, but . . .

BONELLI: That is it primarily, is it not? You are talking in terms of a way in which the financial situation that you are faced with at the present time could be corrected.

TEETER: I am talking only of the financing problem . . . .

BONELLI: Yes, you are not opposed, of course, to the long range program which would change the fiscal year?

TEETER: No.

BONELLI: But your thought here would be that if something could be worked out in the interim by the Legislature, that it would allow a procedure that you could follow in avoiding this dry period, or having the money to carry you over. . .

TEETER: Until this other arrives.

BONELLI: . . . . until the other arrives. Thank you.

MacBRIDE: Mr. Bradley, may I ask another question to clarify that?

BRADLEY: Yes.

MacBRIDE: I think we are right back to where we were when I was questioning you a little while ago, Mr. Teeter. You say "until the other arrives". Well, aren't you still by this process continuing to put off to the future the time when we are going to have to grapple with this problem - this "when the other arrives" problem? In other words, you are not doing anything which is going to enable you to take care of this tough 18 month period about which Mr. Lowery spoke earlier.

TEETER: No.

MacBRIDE: What you are doing is alleviating an immediate situation year after year but you are doing nothing to correct the ultimate problem.

TEETER: Maybe, viewed from that standpoint, Mr. MacBride, I am out of order in bringing up this proposal at this meeting.

MacBRIDE: Not at all. All of your ideas are very welcome here.

TEETER: The thing is that this would provide an immediate solution, and should we fail in this other process, we still have this continuing on the books. Now during these four or five or ten years, or whatever time it is going to take to bring about this basic change involving amendments to the Constitution and selling an awful lot of people, we would overcome the difficulty that we are faced with right now in financing the dry period.

MacBRIDE: Well, you would not them be opposed to financing this dry period, as you speak, with your short term notes and at the same time possibly accumulating this hundred million dollars that we are going to need to make the transition?

TEETER: No.

STANLEY: May I ask Tom where he gets that figure of a hundred million dollars?

BRADLEY: Yes, for the record, Mr. Stanley, and Mr. MacBride, I don't think any figure has been set.

MacBRIDE: Well, I believe that someone used that figure a little earlier and I have just been using it by way of example.

TEETER: I thought that Mr. Lowery mentioned a figure of 57 million for LosAngeles County and I thought that would be about half . . . .

MacBRIDE: Well, whatever the estimated figure is, I used that hundred million dollars as the figure that we are going to need - call it Quantity A if you wish.

BRADLEY: Thank you very much, Mr. Teeter. Mr. Cook informs me that he has a letter from the school people and I think that this would be the appropriate time to have him read it into the record. It may be of interest to some others to hear it.

COOK: Thank you, Mr. Bradley. I won't read the full letter but will merely outline it. The letter and the written presentation will be put into the record when it is subsequently transcribed.

The letter is from Frank M. Wright, Associate Superintendent of Public Instruction for the Department of Education; that is, the State Department of Public Education. He regrets that he cannot attend personally. I contacted Mr. Wright earlier and they were already scheduled with a departmental staff meeting in Sacramento. He points out that the problem is great and requires a good deal of study and requests that the Committee at a later date in the year hold a hearing which will include not only the State Department of Education but the various school districts throughout the State so that their viewpoint can be presented.

However, in his written presentation (and I will just briefly summarize this for you also, reading

underlined portions thereof) under MAJOR PROBLEMS INVOLVED:

1. The school by law and necessary operating procedure is required to commit a major portion of its succeeding year's budget prior to the time the budget is adopted.

2. Expenditures of school districts between July 1 and the date of actual adoption of the budget are not made in conformance with a formal or legally adopted budget.

3. The total budget adoption schedule requires school districts to proceed with the adoption of its budget, without official knowledge of the assessed valuation of the district.

4. The existence of a legal maximum tax rate, together with the lack of knowledge of assessed valuation, prohibit a school district from adopting a realistic budget based upon educational need and requires them to gear educational programs to a fixed amount of income.

5. The present schedule for budget adoption purposes, tax collection purposes, reporting and State apportionment purposes, requires the school districts to carry large reserves or to borrow money, or both, to meet the requirement between July and January until the first installment of county taxes is paid to the district.

Under his heading of WHAT TO DO ABOUT THE PROBLEM:

1. Advance the schedule for budget adoption to provide for final adoption of the budget on or before May 1st.

2. Repeal the provisions of the Educational Code that impose maximum tax rates on school districts.

3. Change the tax lien, tax due, and tax delinquent dates so that tax monies may be available earlier in the fiscal year.

That is, in summary form, the extent of his written statement. I just wanted to get this into the record at the present time so that there would be some record with regard to the school people and you people would know why they are not here at the present time.

BRADLEY: So that there is no misunderstanding, the letter is introduced into the records and will be reproduced in full.

Mr. Wright's letter follows:

Honorable Clark L. Bradley, Chairman
Assembly Interim Committee on
Municipal and County Government
State Capitol
Sacramento, California

Dear Assemblyman Bradley:

I regret that I cannot appear before your committee personally, but a long-standing commitment for a full departmental staff meeting on the date of your meeting makes this impossible. In lieu of my appearance I am enclosing herewith a report to your Interim Committee entitled "Problems Involved in the Present Schedule of School District Budget Adoption". The report contains a brief analysis of the problem, and proposals to improve the schedule that are submitted for your committee's consideration.

The problem that your committee has chosen to study is an important one. There is little doubt that present procedures prescribed for budget adoption, and the schedules now followed in other activities that bear upon budget adoption, could be improved and are deserving of investigation and study.

This report to you has been written without the benefit of consultation with school districts. It would be an advantage to your committee to hear directly from the school districts on this problem. Because of the magnitude of the problem and the complexities and changes that are involved, it might be worthwhile for your committee to set aside a day especially to hear school officials present their views. I am sure that there are a sufficient number interested in the problem to profitably fill a hearing day for your committee.

I appreciate the opportunity to submit this report and suggestions to you. If we may be of service to you or your committee, please call upon us.

Sincerely yours,

/S/ FRANK M. WRIGHT

FMW:em
Enclosures

Associate Superintendent
of Public Instruction

California State Department of Education
Division of Public School Administration
Sacramento 14, California
September 21, 1956

PROBLEMS INVOLVED IN THE PRESENT SCHEDULE
OF SCHOOL DISTRICT BUDGET
ADOPTION

A. The present law provides the following schedule for adoption of school district budgets:

BUDGET CALENDAR

Final Date or Period	Action	Explanation
Before July 1	File Tentative Budget	Each school district shall file a Tentative Budget with the county superintendent of schools.
Before July 15	County returns Tentative Budget	The county superintendent of schools shall examine and correct the Tentative Budget, indicate changes he deems desirable or necessary, and return the budget to the governing board with information necessary to determine the tax requirement.

July 20	File Publication Budget	The governing board shall make such changes in the Tentative Budget as it deems desirable or necessary and return the budget to the county superintendent of schools. A copy of all Publication Budgets shall be sent to the county auditor in such form through the county superintendent of schools.
July 20	Adoption of Budget (by certain districts)	The governing board in districts not required to hold a public hearing, that is, if no district tax is required, or in elementary districts employing but one teacher, shall adopt the budget and file it with the county superintendent of schools for his use and transmittal to the board of supervisors, the county auditor, and the Superintendent of Public Instruction.
July 25-31	Publication of Budget	The county superintendent of schools shall publish the Budget for each district, except for those not required to hold a public hearing, at least once in a newspaper of general circulation.
August 1-7	Public Hearing	The governing board of each district, except as hereinabove stated, shall hold a public hearing on the Budget.
August 8 (10)	Adoption and Filing of Budget	The governing board of each district required to hold a public hearing shall adopt and file the Budget with the county superintendent of schools after the hearing, provided that districts in which there is an average daily attendance of more then 10,000 shall adopt and file the Budget on or before August 10.
August 15	Transmittal to county and state officials	The county superintendent shall approve the Budget as adopted by the governing board and file a copy with the board of supervisors, the county auditor, and the Superintendent of Public Instruction.

The tax rate for the school district is set by the county board of supervisors on the date (on or before September 1) the tax rates for the county and other special districts are set.

B. Major Problems Involved

There are at least five major problems involved in the present legal schedule and procedure for school district budget adoption:

1. The school by law and necessary operating procedure is required to commit the major portion of its succeeding year's budget prior to the time the budget is adopted. The law requires that teachers shall continue to be employed unless notified to the contrary on the fifteenth day of May. (Teachers not employed in the school district may be employed as early as January 1.) This requirement and authorization to employ commits at least 60 to 65 percent of the budget six weeks before even the tentative budget is filed on July 1. Other commitments, such as repairs to buildings and equipment during the summer time, and orders for school and operational supplies may well bring the total expenditure commitments to as high as 90 percent of the proposed budget, when in fact there is no budget or any certainty regarding the income for the year.

2. Expenditures of a school district between July 1 and the date of actual adoption of the budget are not made in conformance with a formal and legally adopted

budget. The period between the close of one school year and the opening of the next is a period when major construction and maintenance jobs must be done; commitments for them are required before a budget is adopted, and often payment upon completion is made prior to budget adoption. Regular maintenance and custodian personnel, and in many districts, certificated personnel are paid each of the twelve months, requiring these salary payments to be made before the budget is adopted. All of these payments are made without any authorization for funds as is required by final adoption of the district budget during the first week in August.

3. The total budget adoption schedule requires school districts to proceed with the adoption of its budget without official knowledge of the assessed valuation of the district. Assessments are rarely available prior to the first Monday in July when the Board of Supervisors are required to sit as a board of equalization. The Public Utilities Roll is issued by the State Board of Equalization on the first Monday in August. The full secured roll for a district conceivably could not be made available until three days before the date on which the final budget must be adopted.

While there exists some fine cooperation between school districts and other county officials, the following data was provided by school officials in 1950:

"In reply to the question to county superintendents of schools asking the date assessed valuations are made available to school districts, the following replies were received from city and county superintendents of schools:

Receipt of valuation information by:	City Supts.	County Supts.
On or before July 15	20	21
After July 15 and before Aug. 15	16	7
On or after August 15	11	18

"Of the city superintendents of schools reporting, 23.4 percent did not know their valuations until after budgets were adopted. Of the forty-six county superintendents of schools replying, eighteen or 39.1 percent, reported that assessed valuations were unknown until after August 15, and that they were operating in the dark as far as income was concerned. Districts in these counties were required to plan, make commitments by contract and make actual expenditures months before they knew whether they would have funds to meet their obligations. The only alternative would be to limit the education program to a 'safe' margin.

"The eighteen counties represented 561 separate school districts which were required to operate for at least four months without knowledge of what their income would be and what is still more tragic, well up to 90 percent of the total 'expected or hoped for' income was already committed or obligated." [1]

[1] Frank M. Wright, "Selected Policies and Procedures in the Administration of California School District Budgets". Unpublished Doctor's Dissertation, University of Southern California, Los Angeles, 1950, pp. 182-184.

4. The existence of a legal maximum tax rate together with lack of knowledge of assessed valuation prohibits a school district from adopting a realistic budget based upon educational need and requires them to gear the educational program to a fixed amount of income. These two factors tend "to operate to guarantee a maximum tax rate by

keeping ~~the bu~~dget high enough to be certain that any increase in valuation will still require the maximum tax rate. This procedure completely nullifies any reasonable budget preparation or administration. It tends to give truth to the definition sometimes given to school district budgets: 'A school budget is a compilation of figures designed and arranged to guarantee a maximum tax rate.' "[1]

"Good budget procedure would completely divorce assessed valuations from the needs. Emphasis far beyond the attention it deserves is often given to the tax rate. The tax rate is not basic. The basic item is the amount of money to be raised. The assessed valuation in reality has no relationship to actual needs. It is only an expression of an equitable comparative rating of property for purposes of values, on the assumption that each dollar of value should support its just share of funds to meet the needs. The tax rate is simply a ratio of the need to the value of property, and it can vary without affecting either the property value or need. The governing board of a school district and the local county assessor both can be the 'whipping boys' for the tax rate, a situation which is illogical.

"Elimination of maximum tax rates would give the greatest assistance in the preparation of a realistic school district budget which would have to stand on its own merits."[2]

[1] Op.Cit., p.184
[2] Ibid., pp. 184-185

5. The present schedule for budget adoption purposes, tax collection purposes, reporting and state apportionment purposes, requires school districts to carry large reserves or to borrow money, or both, to meet commitments between July and January until the first installment of county taxes is paid to the district.

The payment of taxes on the unsecured roll is available to school districts on or shortly after July 1. These taxes constitute only a small portion of the total to be received. Taxes on the secured roll are generally paid to school districts after the December 10 delinquent date and frequently not until after January 1. No State school fund apportionments reach the district until late August when approximately 8 percent of their total apportionment of basic and equalization aid is paid. Another 8 percent is paid in September. It is not until late in January that 50 percent of the basic and equalization aid to which a district is entitled is received by the district, and 70 percent of the total aid is received after December 1.

This "dry period" in school finances is a definite problem that is costing school districts large sums in interest on borrowed funds.

C. What to do About the Problem.

At least two suggestions have been made to meet the problems of the budget adoption schedule. The major suggestion has been to change the fiscal year to the

calendar year, so that true knowledge of income and cash would be available at the beginning of the fiscal year. Implementation of this suggestion would require constitutional changes and would, in addition, require the financing of an additional six months' operation from the receipts of a single tax year. The difficulty of achieving these two changes, and especially the necessity to finance the six months' change-over tend to detract from the values of the plan, and to require long delay in its achievement.

A plan to change the reporting year of school districts for state apportionment purposes to the calendar year has been proposed in order to provide school districts a true knowledge of their income from state sources prior to budget adoption time, and to provide them with funds at the beginning of the fiscal year. This proposal, too, would require constitutional change and if achieved would make more complex many activities required in financing and reporting expenditures of school funds.

The above two plans are not rejected. Study may find one or the other or both of them sound.

The following proposal is presented for your consideration as one that may be achieved by action of the Legislature and one which would not require additional funds for a change-over period:

1. <u>Advance the schedule for budget adoption to provide for final adoption of the budget on or before May 1.</u>

The adoption of such a schedule would guarantee that the school district would have adopted its budget prior to the time it would have to make its major commitments for expenditures for the budget year. An advancement of the schedule would provide for a public hearing on the total budget prior to the time that major commitments for expenditures during the budget year have been required to be made. It is likely that a public hearing held in mid-April would precede the making of any commitments by the governing board. A suggested schedule would be as follows:

Before March 20	File Tentative Budget
Before April 5	County Returns Tentative Budget
April 10	File Publication Budget
April 10	Adoption of Budget by Certain Small Districts
April 10-20	Publication of Budget
April 21-27	Public Hearing
April 28-30	Final Adoption and Filing of Budget
June 1	Transmittal to County and State Officials

2. <u>Repeal the provisions of the Education Code that impose maximum tax rates on school districts.</u> The formulation and adoption of a school district budget in accordance with the budget adoption schedule as proposed above will require that the legal maximum tax rates now

imposed upon school districts be repealed. Without knowledge at budget adoption time of the assessed valuation of the district, it is impossible to adopt a balanced budget or to know or predict the actual income of the district as early as May 1. The repeal of such provisions would place the responsibility for school expenditures directly on the shoulders of the governing board of a school district and would allow them to adopt a budget in harmony with the educational needs of the district, and would further reduce the complexities involved in budget adoption and fiscal accounting now arising due to the numerous restricted funds required by taxes that may be levied in excess of legal maximum rates for specific purposes. It is not likely that school districts would favor an advancement of the budget adoption schedule unless such a proposal included as an integral part the repeal of the provisions relating to maximum tax rates for school districts. To advance the budget adoption schedule without such action would require school districts to work more in the dark than at present and would tend to create confusing problems in the total budget adoption and school financing procedure.

3. Change the tax lien, tax due, and tax delinquent dates so that tax moneys may be available earlier in the fiscal year.

a. Advance the present tax lien date from the first Monday in March to the first Monday in January.

b. Advance the hearing date of county boards of equalization from the first Monday in July to the first Monday in May.

c. Advance the publication of the Public Utilities Roll from the first Monday in August to the first Monday in June.

d. Advance the tax due and tax delinquent dates from November 10 and December 10, respectively, to September 10 and October 10, respectively, or earlier if possible.

This procedure if in effect would provide for the first payment of taxes to reach the district by October or November and would tend to reduce the large reserves and borrowing that the present procedures make necessary.

D. Advantages of the Proposal

The procedure that is proposed would have the following listed advantages:

1. The budget would be prepared, considered by the governing board, set for public hearing, and adopted prior to offering contracts to teachers and other employees, or in other ways committing expenditures for the budget year.

2. The necessity of having valuations at an early date would be eliminated.

3. The district would have a legally adopted budget under which to operate during the complete fiscal year.

4. Real budget preparation and financial administration would be achieved, which is not possible under the present law and practice.

5. Emphasis would be placed upon the budgetary needs of the district rather than upon the tax rate.

6. Better community participation would be achieved by the people of the district in financial planning at a time when such participation would be effective, rather than after all commitments have been made and the budget has been in operation for at least two months.

7. The budget would be a real financial plan built upon the educational needs of the district, as planning would precede the making of obligations. It would be a financial guide for the district rather than an instrument to fix a tax rate which is at present too unrealistic to be of any value as a financial plan.

8. An opportunity would be afforded for the people to suggest or recommend additional services which they desire and for which they are willing to pay.

9. Money would be made available to the district early in the fiscal year, reducing the need for large reserves and the expenditure of funds for interest on borrowed money.

10. The board and administrator would have an annual appraisal by the public of their administration of the district as far as fiscal management is concerned.

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ASSEMBLYMAN STANLEY: Well, from what you read here, do you take it that they are opposing this change of the fiscal year to the calendar year?

COOK: I can't tell with certainty from what I have just read. I just received this in the mail this morning. He doesn't come out anywhere that I see and specifically say that he is for or against, but in view of this third proposal, the change of the tax lien, tax due, and tax delinquent date, so that tax monies may be available earlier in the fiscal year, it would indicate to me that the school people are inclined to favor the fiscal year and merely change those last three dates which, as Mr. Lowery pointed out earlier, would not be in any real conflict with his position, so long as the problem itself was solved. Am I correct in saying that, Mr. Lowery?

LOWERY: Yes, I have a letter here from Mr. Wright in which he supports the position that the Auditors' Association has proposed, and in a discussion . . .

STANLEY: Mr. Lowery, would you mind going to the mike, please?

LOWERY: I have a letter here from Mr. Wright on this question, in which he supports the idea that a study should be made and a solution arrived at because of the terrific problem that the school districts find themselves in, and I think Mr. Cook's summary indicated that problem, or the recognition of that problem. Here is Mr. Wright's letter:

"As Mr. Lowery states in Item 4 on page 2 of his proposal, the real stumbling block would be the necessity for adopting a budget and providing funds for an 18 month period for the first year of change-over. This is a thing which completely stopped us from doing anything about the problem for school districts. There are many ramifications, as Mr. Lowery has pointed out, and I am certain that all the suggestions which he has offered would have to be carried out, or at least some modification of them. I am firmly convinced something needs to be done and I would be most happy to lend my support to such a program. (Signed) Frank W. Wright, Associate Superintendent of Public Instruction."

BRADLEY: Mr. Lowery, will you have your secretary make a copy of that letter and forward it to Mrs. Harrison, our secretary, or to Mr. Cook, so we may have it for our records?

LOWERY: Yes sir.

ASSEMBLYMAN GEDDES: Mr. Chairman.

BRADLEY: Yes, Mr. Geddes.

GEDDES: I think that inasmuch as we have interjected this into the record, I would like to further amplify it and get into the record the fact that by and large the school districts are working in the past. First of all, they have a different school year; they have already adopted their tax rate unless they have gone to the voters

for an override tax. We'll say, for example, the school district is at the maximum tax rate for elementary school districts, which is 90 cents. They have been getting along comfortably on that and they are maybe faced with some increases, but we'll say that they are pretty well jelled. Well, they know that that is going to bring in X dollars - just how much X dollars amounts to they don't know until the assessments are made, or anything else - so they are working on that figure that is going to bring in some certain amount of money and presumably it will be enough. That is their only source of revenue except the State allocation of school funds. The State allocation of school funds is based on the ADA attendance for the previous school year and we have found we have to make adjustments at the State level for rapid growth and unforeseen circumstances. That's why there are two different apportionments of the school fund. It is a complicated factor, but I think that Mr. Lowery has correctly pointed out that they are interested because they are just between the devil and the deep blue sea in many instances. There are some people that hold that they should not know what their tax is going to be but they should make a very carefully itemized budget and then live within it. It is argueable that the fact that they are going to receive a certain amount, they are going to set up the budget as required by law, but if there happens to be a surplus, why, they are legally entitled to it. So

it's just a further complication of a problem that has a great many facets.

BRADLEY: Thank you, Mr. Geddes. Now at this time I would like to call upon Mr. Vince Cooper for just a few general remarks.

VINCENT COOPER, County Supervisors' Association: Mr. Chairman and gentlemen of the Committee, I would like to inform you that we had a meeting this morning consisting of County Supervisors, County Administrative Officers, County Auditors, a member from the Treasurers' Association; Mr. Cook from this Committee was there and we also had the privilege of having Mr. MacBride, so if he appears learned today it is only because he had advance information.

MacBRIDE: And a nice breakfast!

COOPER: So, at any rate, we did consider the problem and we heard essentially about the same testimony that has been presented to your Committee today. Mr. Donnenwirth, Chairman of our Tax Committee, tells me that he would like to hold another meeting of our group some time in November, at which time we will invite the city people in and the school people, in order to further clarify our thinking.

To date we have no policy. We have listened to the proposal of Mr. Lowery and also to the response by Mr. Teeter. It is going to take some time to solve the problem and we know that you, as members of this Municipal

and County Government Committee, have heard this problem aired before. Also, the matter of the early budget has been before you. This is a long range problem and we will continue to work with it and to work closely with your committee for a solution.

BRADLEY: Thank you, Mr. Cooper. Lew Keller, would you like to make a statement at this time?

LEWIS KELLER, Associate Counsel, League of California Cities: Mr. Chairman and members of the Committee, my name is Lew Keller and I represent the League of California Cities. Our organization has no policy on this problem as yet and, as stated to you by Mr. Lowery, the cities seem, at least, not to have the problem and there are perhaps two main reasons why they don't have it--if they don't-- and I am assuming that. One is that they have a much wider revenue base than the counties and as a result, there are always funds - or normally there are fundsfrom which they can draw to finance a dry period; and secondly, they have been, I think, a little more ingenious in attempting to solve the problem by local expedience - in other words, by less formalized methods - the County Government being larger.

Our organization, I can assure you, is more than willing to work on the problem with representatives of county government and school district government, and this committee, in an effort to reach some solution that would be mutually acceptable to the different levels of

government, citizens' taxpayers groups and others. If there is any way that we can be of assistance, we will certainly do our best.

BRADLEY: Thank you, Mr. Keller. I would like at this time to introduce Assemblyman Frank Lanterman.

LANTERMAN: The "late" Mr. Lanterman! I'm sorry and I apologize, Mr. Chairman.

BRADLEY: At this time Mr. Hard, Finance Officer of Santa Monica, will address the Committee. Will you for the record give us your name and status?

W. A. HARD, Controller, City of Santa Monica: Mr. Chairman and members of the Committee, my name is W.A. Hard, Controller of the City of Santa Monica. As Mr. Keller just stated, and Mr. Lowery as well, this is primarily a problem of school districts, counties, and other political subdivisions whose major sources of revenue are property taxes. It does not seem to me to bear so heavily on cities. I know that from the standpoint of my own city, it is not a problem at all. That may be because of the fact that we have a charter provision which requires the Council to establish and maintain a sufficient cash reserve at all times to pay our bills in cash during the dry period. Whether some such expedient could be used by the counties, I cannot say, and I cannot speak as to the attitude of all cities regarding this problem. As Mr. Keller mentioned, we have not yet discussed it and I

don't think it would be proper for me to take a stand either for or against until we have had such an opportunity and then I am sure that we will. Thank you.

BRADLEY: Thank you, Mr. Hard. Mr. Stanley?

STANLEY: Mr. Chairman, I would like to know - do you anticipate now any problem that the city would have in making such a ch ange-over which would cause them to oppose it?

HARD: Change generally is opposed unless the cities conceive some personal benefit to them, sir. There are undoubtedly cities, although I am not aware of which ones, which do find it difficult to finance their dry periods. Such cities, I am sure, would welcome a change of any nature that would alleviate that problem. Those cities, such as Santa Monica, and I think probably we are in the majority, that have a financial administration that enables us to cope with that problem, would not be so ready to change.

STANLEY: You say it doesn't make much difference to the cities. Are you not inferring from that statement that they would be in opposition to any change?

HARD: There might well be because I think, as Mr. Lowery pointed out, there is going to be that six months' period which will have to be financed by some kind of an interim budget. Probably that would be seized upon as a point of objection unless it were absolutely necessary.

STANLEY: The cities have to keep in mind that we are all one State.

HARD: Oh yes, certainly.

BRADLEY: Mr. Cook has a question.

COOK: Do you happen to know off-hand, Mr. Hard, whether the majority of the cities in the State operate under a calendar or a fiscal year?

HARD: The majority of them, sir, operate under a fiscal year basis.

COOK: Under a fiscal year basis. However, that fiscal year . . .

HARD: The only one I can think of which does not, although I know there are others, is Stockton. Is that right, Mr. Lowery?

LOWERY: Yes, it is.

COOK: However, the cities, in operating under the fiscal year, can choose any fiscal year that they desire, as opposed to the counties which must operate on a July 1 to . . . .

HARD: Chartered cities, I assume, sir, can pick whatever fiscal year their charter designates. As to sixth class cities, I am not so sure.

COOK: I see. That is all.

BRADLEY: Any other questions? Thank you very much. Mr. Donnenwirth, Plumas County Supervisor. Will you come forward please - and state your full name and position to the Committee.

A.C. DONNENWIRTH, Supervisor, Plumas County: I am Clair Donnenwirth, Supervisor of Plumas County and Chairman of the State Supervisors' Association Tax Committee. I have nothing to add to what Mr. Cooper has given you, with the possible exception that I think a proposal made by Mr. MacDougall at our breakfast meeting this morning should be considered. In a majority of the cases, advancing the first tax installment due date to September 1st and the delinquent date to October 1st would carry many of the counties in the State that are now experiencing difficulties over this dry period. In the mountain counties, such as I represent, we have to do practically all of our capital outlay work and road building program and things like that between the 15th of June and November 1st because of the weather conditions, and that is just the time when we have no money available. By the time that our auditor gets through with the tax apportionments, it is around the first of January before we can be making payments on capital outlay purchases, or else we have to borrow money on tax anticipation notes. So, we do wish that you would consider the possibility in your overall study of stepping up the tax delinquent date on the first installment on the October 10th date. We feel that, certainly in our county, if that was in effect now, we would never have to borrow any money through tax anticipation notes. I think the last time that we experienced that was in 1951 and county government has

suffered because we didn't have the amount of money available at that time. I know that the interest rate for 58 days at that time on a $200,000 loan from the Bank of America was $2\frac{1}{2}$ percent, which we think was quite high.

BRADLEY: Will you wait for just a moment? There may be some questions. Mr. Stanley?

STANLEY: I was just going to ask you if you believe that your committee can have a decision or a report made by the '57 session as to your opinion in this matter?

DONNENWIRTH: We had a committee meeting this morning where we had many different solutions offered to the problem. Though we had a very nice meeting and everyone was most agreeable, I doubt very much that even with a series of meetings prior to that time that we would have a concrete recommendation to make to your committee. We would like to very much. I believe that when we go home with the ideas that have been expounded this morning probably our November meeting might bring out something whereby we wouldn't be in disagreement with either the cities or the schools. It is entirely possible that we would have a recommendation, but I wouldn't want to promise you, Mr. Stanley.

BRADLEY: Well, may I ask this question - if the Legislature were to provide a means of financing whereby the counties involved could borrow to cover an 18 months' period, perhaps by a bond issue, assuming that

the people of the State approved a bond issue, would that in any way affect your opinion as to what you might think would be the prospects for opposition, or otherwise, to the plan suggested by Mr. Lowery?

DONNENWIRTH: Well, I don't think that my opinion is worth as much as Mr. Lowery's because Mr. Lowery has been studying this for a period of several years and I have been aware of it from my own county's viewpoint only until this morning at 7:30. I think Mr. Lowery's opinion and judgment on that would be more valuable than mine.

BRADLEY: Well, for the record, do you then agree with Mr. Lowery's position as being the best plan?

DONNENWIRTH: I certainly do if it can be enacted. Otherwise we are merely putting off something that is undesirable politically for supervisors, because we know that due to the impact a lot of supervisors probably wouldn't be in office at the time this transition was made. You would jeopardize yourselves politically, but sometimes (and you gentlemen certainly know this) you have to make decisions that are for the best possible benefit of the State and the counties. I believe that Mr. Lowery's solution will ultimately come through. It might be 15 or 20 years from now but I think that it is the best solution to the problem. In the meantime, if we could have financing made easier by Mr. Teeter's plan, or some other similar plan, it would be very acceptable to several counties which are now experiencing the difficulty.

BRADLEY: When you say 15 to 20 years, is that due to the complexity of the problem or the slowness of the State Legislature?

DONNENWIRTH: I would say it is not at all due to the Legislature. If it requires a Constitutional Amendment, it would take about that length of time for the people who really believed in this to overcome the probable objections of various taxpayers' groups that are reluctant to provide that extra money for the period of transition.

BRADLEY: Now you heard Mr. Teeter's suggestion, and do you feel that if the Legislature were to act in 1957 and changed the law to make it possible to borrow the money as he suggested, in conjunction with the ultimate adoption of the plan suggested by Mr. Lowery, that that would be a good plan?

DONNENWIRTH: Yes, I do. It wouldn't be a cure-all - that changing to a calendar year basis would be - but it would certainly provide for financing until the transition period actually takes place.

BRADLEY: Now are there any further questions from the Committee? Mr. Cook?

COOK: As I understand it, you would much prefer the shift from the fiscal to the calendar year over the change of the three other dates, that is the tax lien date, the tax due date, and the tax delinquency date.

DONNENWIRTH: Well, I think that over a long range period that that is the most practical. However, taking

into consideration the hard fight that might be encountered in realizing it, these other alternatives that Mr. Teeter spoke of, and the proposal that Mr. MacDougall made this morning in setting ahead the delinquent date on the first installment, that would take care of 70 to 80 percent of the counties that are now having difficulty.

COOK: And that proposal would take care of your mountain county situation where the most part of your work is done during the summer?

DONNENWIRTH: Oh yes, that would completely take care of us, but in fairness to Mr. Lowery, he stated this morning that the tax anticipation notes, no matter how easy it is to put those things over, wouldn't solve the problem so far as Los Angeles County is concerned because they have to raise $57,000,000 to carry them over the dry period. I believe that's right.

BRADLEY: If there are no further questions, thank you very much, Mr. Donnenwirth. Mr. Eaves.

ALBERT EAVES, JR., Auditor-Controller, Santa Barbara County: Mr. Chairman, I am Albert Eaves, Jr., Auditor-Controller of Santa Barbara County, and Legislative Chairman of the County Auditors' Association. I can't add too much to what Mr. Lowery and the other gentlemen have already said. We of the Auditors' Association have discussed this at various times, both in our meetings and in

various groups, and we feel, generally speaking, that the solution that Mr. Lowery has presented is at least the best possible solution that appears at the present time. We feel that it does need further study, for we do have, as has been pointed out, a very serious problem. Just for example, I can give you a few figures there that will illustrate the problem we are confronted with in Santa Barbara County, which is one of our medium sized counties.

We, through the cooperation of our Board of Supervisors, have been carrying a general reserve of $600,000. We have had much pressure every year to reduce that because counties larger than ours are not carrying that much, and to use it to reduce the tax rate. Just before I left my office I checked up and last year, to finance us during the dry period - in other words, our total expenditures less all other receipts other than taxes - would have required and did require slightly over $1,800,000 for the period during which time we had no tax money. In other words, if we had had to borrow the entire amount, we would have had to borrow nearly two million dollars to finance us. Actually, Santa Barbara County itself would not have quite the problem some of the other counties possibly would have, by virtue of the fact that we have carried a little heavier reserve than most counties.

The school districts have a real problem. I know most of the auditors, during every year at tax collection

time, are getting calls from the various superintendents, in fact, I got one just a week or two ago. They haven't got tax money to meet the next payroll. The problem is very important and of very much concern to both auditors and supervisors and we feel, as I said before, that the solution is a study along the lines that Mr. Lowery has pointed out.

I would like to point out to the Committee that any change in advancing of the present due date of taxes would of absolute necessity have to carry with it the change on all the dates preceding. To give you a practical example: My office in Santa Barbara worked Labor Day, worked Admission Day, and worked every Saturday and Sunday in order to get the rolls ready for the November first collection date. Under the present law, as you gentlemen undoubtedly know, the State Board of Equalization can allow the assessor additional time, and, theoretically, according to the law, it moves all other dates up that much. But we are right in the middle because the due date has to be November 1st and because the schools in the districts are after money. So we are caught right in the squeeze and, therefore, any change in dates would have to go all the way back. I don't believe I can add anything further, Mr. Bradley, unless you have some questions.

BRADLEY: Well, on the point that you just mentioned, that isn't a problem, is it, in so far as the

plan suggested by Mr. Lowery is concerned?

EAVES: I didn't get that.

BRADLEY: About moving the dates . . . . .

EAVES: No, the only thing is, I gather from the testimony given possibly by one or two other people that the idea was to move only back the due date which certainly would be impractical on all counts.

BRADLEY: Well, just referring to the literature which Mr. Lowery gave to the Committee, and which, incidentally, is available, he suggested that the due date could be extended from November 1st to December 1st and the delinquency date could be extended from December 10th to January 10th, using the extra 30 days to relieve the pressure on the assessor, auditor, Board of Equalization, and tax collector; do you disagree with that?

EAVES: No, I am fully in accord with that. All I was trying to do was to point out that if you did not change the fiscal year that we could not move the date when taxes become due back without moving other dates also.

BRADLEY: For the record, do you have any thought in regard to the plan suggested by Mr. Teeter? Would you care to comment on that?

EAVES: Well, I am a little concerned about one phase which undoubtedly Mr. Teeter could answer. If my memory serves me correctly, the Constitution itself limits the amount of borrowing, I believe to 85 percent, but at least in our county we construed that 85 percent as a

factor which we are not able to determine until after the levy is set on September first. This means, at least so far as our county is concerned, that we couldn't borrow during July and August.

BRADLEY: Mr. Teeter, do you want to take that up?

TEETER: My suggestion was that the Legislature authorize the borrowing on the basis of a limitation determined by the previous years total tax levy for all purposes - covering all taxes that go on the county roll, because they are all equally valid liens against property and, therefore, equal security. Now those became a lien on the first Monday in March. The amount of them isn't determined until the auditor applies the tax rate finally adopted by September first. The amount of them doesn't matter if you stay within a certain percentage of the previous year's tax levy. You know that next year is going to be equal to it or not very much less at any rate.

BRADLEY: Mr. Eaves, does that throw a little more light on it?

EAVES: Well, it does, but if my memory is correct on the Constitution, Mr. Teeter, do you think the way the Constitution is worded that by legislative act that could be done.

TEETER: I think that the Constitutional section you refer to provides for an advance from available funds to any fund in the treasury up to 85 percent of the

levy made for that year. We would be well within it if the limitation, say, were 65 percent of the previous year's levy. We could be fairly well assured that we were well within 85 percent; particularly if the borrowing was for the general reserve, and then your office recommended to the Board of Supervisors an advance to a particular fund from that borrowed general reserve. You would be aware what their levy policy was going to be and of any radical changes.

EAVES: Well, Mr. Teeter, that was my question. In view of the wording of the Constitution, you cannot borrow more than 85 percent of the levy, and even though we know that we would be well within it, the fact that the levy hadn't been made might cause somebody to raise the Constitutional objection. That was my thought in the matter.

LANTERMAN: Mr. Chairman.

BRADLEY: Mr. Lanterman.

LANTERMAN: Has it been established what it costs local government to borrow on tax anticipation warrants?

BRADLEY: That point has been discussed and the cost factor on interest charges is indeed deemed to be a matter of some concern on any plan short of changing the fiscal year. I believe that is a fair summary.

LANTERMAN: Where do they borrow from? Local banks?

BRADLEY: Any source of borrowing, as I understand it, banks, insurance companies, trust funds, and so on.

LANTERMAN: What is the matter with our setting up a fund and letting them borrow from it at the State level?

BRADLEY: That is also in Mr. Lowery's plan, Mr. Lanterman. It is proposed that the State provide through an approved bond issue the necessary finances for the various counties to cover this 18 months' financing, to be repaid over a given period of time, and so on.

LANTERMAN: I'm sorry to have taken this time.

BRADLEY: That's all right.

MacBRIDE: Mr. Bradley, I have a question. Actually, this question is directed to Mr. Teeter, but it is right along with the question that Mr. Eaves propounded. I believe that you stated that the Constitution now provides that the counties can borrow up to 85 percent of the tax levy from available funds?

BRADLEY: Well now, for the record, Mr. Teeter has indicated yes.

TEETER: The Board of Supervisors may authorize the treasurer to advance up to 85 percent of the taxes and that, of course, can't be determined until after the tax levy is made.

MacBRIDE: I understand that but you say "from

available funds". Well now, I believe that Mr. Eaves' question was "Where would you get the Constitutional authority to borrow this money on short term notes?" You're not borrowing this money from available funds; you are borrowing it from banks and financial institutions.

TEETER: Well, I don't think that it violates the Constitution any more than there is at present in the authority to borrow under tax anticipation warrants. That has been used for years. There you have determined the exact amount against which you are borrowing, and under my plan you would be using the guide of the previous year's operation and a lower limit to limit your borrowing.

MacBRIDE: Do you feel that the Constitution would permit that where you haven't got your budget fixed yet? In other words, as Mr. Eaves has pointed out, you don't have your budget fixed until September.

TEETER: Yes, I think it would. It is an operation that is confined entirely to the fiscal year in progress. I think that makes all the difference. Now the fact that it says "from available funds up to 85 percent" isn't the limitation in this case. If you borrowed for the general reserve, you couldn't advance any more than 85 percent of the year's tax levy to any fund. That could be determined in July by estimate by the auditor so that you are well within 60 percent. Bear in mind that you don't have to advance the whole five months' requirement at one

time; you borrow as you progress until the tax money starts coming in and then you repay that which you borrowed.

MacBRIDE: Thank you.

BRADLEY: Mr. Teeter, would you be so kind as to outline your plan in letter form and forward it to Mrs. Harrison or to Mr. Cook?

TEETER: I'll do better than that, Mr. Bradley. I've been promised space in the November issue of Tax Digest for this proposal - for an article proposing that - and I'll send a copy of that to each member of the Committee.

BRADLEY: That would be fine. Mr. Eaves, did you have anything further you wished to say?

EAVES: I just might add this, Mr. Chairman. One problem we have been confronted with on the temporary borrowing in Santa Barbara County is the limitation that when any funds are borrowed, under at least certain authorities, they are limited to expenditures for maintenance and operation only. Well, obviously, it is a matter of interpretation, but if a school district, for instance, has money out on loan from the county and decides to buy a typewriter, why you can interpret that as capital outlay. Technically they haven't got a right to do that - which causes further complications. That is about all I have to say.

BRADLEY: Thank you very much. Now ladies and gentlemen, the time is twelve o'clock and the Chairman proposes that we recess for a luncheon period. We have about

five or six additional people from whom we wish to hear this afternoon. I suggest that we recess now and return here at 1:30. You may count on our being through with our hearing not later than four o'clock.

STANLEY: Why don't we go on for another hour and get through?

GEDDES: I'm starving to death. I came in from the country!

Afternoon Session

BRADLEY: The afternoon session will now come to order. I would like to announce, to begin with, that we now have the finished transcript of the last meeting of this Committee on Functional Consolidation, so that if there is any member of the Committee or anyone present in the audience who would like a copy of that transcript, it is available.

We will now proceed with our hearing and I will ask Mr. Jaqueth if he will come forward.

HERBERT H. JAQUETH, Chief, Division of Local Allocation, State Department of Finance: Mr. Chairman, I am Herbert Jaqueth, Chief of the Local Allocation Division of the Department of Finance, and as such, the Executive Officer of the State Allocation Board.

It might be of interest to this Committee to hear just a few of the activities and results of the Allocation Board making allotments to various cities, counties, and

districts - principally school districts. There have been some 4,000 applications under the Construction and Employment Act, which provided some 90 million dollars for allocation on the basis of population to cities and counties and districts. An interesting thing concerning the allotments has been that many of these cities, counties, and school districts have expressed the opinion that they needed to wait until such time as their funds were straightened out with their local boards of supervisors, city councils, or school boards, before they would be able to use the allotment that was available to them through the approval of the application. That happens usually in the fall months - some time after July or August and September - in through those early fall months. I point these things out principally because the acts with which the Allocation Board operates are all construction acts and they relate to construction of needed public works of some type or another.

You are also familiar with the funds of the State School Building Aid Act, where loans are made to school districts. Of course the school district, as has been testified to you here and probably other meetings, does not know of their funds until the fall months. That is the period during the year when usually they should be completing their construction; and as the need for school buildings at the present time seems to be, well let's say

unprecedented, the school districts then find themselves in the position of coming along toward the fall months and not building because of other procedural machinery wherein they don't know exactly what their budget is, nor the funds which they will have available for capital outlay construction purposes. We find as a result of our fiscal analyses of their accounts that oftentimes they are borrowing, either from some account of their own, or from some other account which they can lay their hands on; or oftentimes they are even borrowing from bond accounts which are not at all eligible for the purposes for which they use them - even temporarily. But conditions encourage that on the part of the school district, and that just isn't good. They need the money. They do have a small reserve, which of necessity they set up in the spring months, or hold it over from what they borrowed in the previous year, and they continue to tag along with that reserve. There is a condition that causes them to create and hold reserves which perhaps they need not have, or they borrow from some other accounts which, of course, in many instances is expensive to them from the standpoint of interest or merely from the standpoint that they are not able to use that particular account.

I have no comments to make concerning Mr. Lowery's suggestions, or concerning the changes of the dates and matters of that kind; but it does seem that from the

standpoint of State allocation of funds to cities, counties and districts, that if the fiscal year were changed to the calendar year, then it would smooth out many of the problems inherent with the cities, counties, districts, and these people who come to the State for funds, loans, and for subventions. It would help them considerably. We have some 15 or 20 types of subventions that go to cities and counties, and we all know, of course, that the construction part of the year is during the spring, summer, and fall, and not the winter months. So, the present system is causing, I wouldn't say a hardship, but at least great difficulty on the part of the districts - and particularly school districts - to actually get their work done during the good part of the construction year.

If there is any information that the Chairman would desire and which we might have available through our office, I assure you that we will be very happy to obtain the information and submit it to the Committee.

BRADLEY: Thank you, Mr. Jaqueth. Are there any questions from members of the Committee? If not, we appreciate very much your taking the time to come here and I think you will have ample time now to get on down to San Diego where you are scheduled to be this afternoon.

JAQUETH: Thank you.

BRADLEY: Is Mr. Hastings present? Mr. Hastings, will you give us your full name and your position?

JAMES H. HASTINGS, Auditor-Controller, Sacramento County: Chairman Bradley and gentlemen, I am J.H. Hastings, Auditor-Controller of Sacramento County, and I also represent the County Auditors' Association.

I think perhaps one point in the present procedure that hasn't received enough emphasis is the fact that we have actually been in operation for two months of the fiscal year before we adopt our budget - our overall plan for the year. To me it will be just as sensible to construct the first two floors of a building and then consult an architect. Now, Joe Lowery's plan definitely will cure that particular fault and the budget will be adopted well before the beginning of the fiscal year. And in curing that fault, it automatically cures a second fault. At the moment it is illegal to make capital outlay expenditures until the budget is adopted, which is uaually the 30th of August. I don't know if there is a county in the State that is actually operating legally, so far as capital outlay is concerned, though certainly we try to curtail our capital outlay as much as possible during that period, but there are certain items that must be done. You can't stop the whole road program of a county, and as was pointed out earlier, there are many counties in which the road program can only be in operation a few months of the year; and, unfortunately, it happens to be those months in which the law says we can't spend capital outlay money for road construction.

Under our present procedure again, it isn't just the first few months of the year that we are without finances. We are actually without finances, so far as county government is concerned, for nine out of the 12 months. We start in July. There is no tax money coming in until December. We repay from that December tax money all of the loans that we made to finance us through the early part of the year. The money is then exhausted again and we have to borrow, or finance a second time, until the April money is in. So, actually, under present procedure, we are without funds a maximum of nine months a year.

We have another tremendous problem. I am on another advisory committee to your committee in which we are studying timing. That timing factor is a tremendously difficult problem and there have been suggestions made before the Committee today to change the timing in various ways; but we are not going to be able to re-time this whole schedule except by taking one or two actions. The first action is to possibly set the lien date up to January first. That's a good possibility and in many ways would solve many of our problems; but again, this proposal that comes from Mr. Lowery of Los Angeles County doesn't require that lien date to be set up. I believe that the problems in putting over this proposal of Joe Lowery's, while they are tremendous, will not be as great as convincing all of the people in the State opposed to

changing the lien date that we should change that lien date. I do sincerely want to go on record with this committee as recognizing that it is going to be a tremendous job to move to a calendar year basis. I don't anticipate that it can be done in less than six years, possibly it might take longer, but we are certainly taking a step in the right direction if we set that as our goal.

In the meantime, Mr. Teeter has come up with a proposal of financing that - while I've never had a chance to consider it before this morning - seems quite sound. We are prohibited from borrowing from outside sources at the present until after the budget is adopted again. At least Mr. Teeter's proposal will mean that we can finance the county starting July 1st, and I see no confliction with the Constitution in Mr. Teeter's proposal, but there are, of course, conflictions with legislative procedure which might possibly be a subject for this committee to introduce at the next session of the Legislature.

It might possibly be advantageous to try again, as was tried at the last session, to provide for a mandatory adoption of a county budget on June 30th. It is just not good business to actually be into the fiscal year of the county for two months before you make your plans. Overall planning in any organization, whether it be public or private, should certainly be on the basis that you know where you are going at the time you start. Thank you, gentlemen.

BRADLEY: Thank you, Mr. Hastings. Are there any questions? Mr. Cook? Well, then, I have a question, Mr. Hastings. If it should be the considered opinion of this committee to make a definite recommendation after studying our transcript of this hearing today, and other hearings which we will probably have on this subject, would you see any difficulty (assuming that the Committee's feelings on this were favorable) to starting the machinery going - some steps of the machinery - in this coming session of the Legislature, in view of the fact that it is going to take a considerable period of time anyway? What if any would be the obstacles, so far as you can see, to: One, this committee recommending legislation along the line of Mr. Teeter's plan, as a temporary expedient; and two, consideration of a Constitutional Amendment?

HASTINGS: I feel that those suggestions are excellent. Certainly Mr. Teeter's proposal will alleviate the existing situation until we can go further with the Constitutional Amendment; and if this session of the Legislature can enact a proposition to go to the people to amend the Constitution, why perhaps we are not six years away. Perhaps we are only five years away from an ultimate solution, but there are many factors involved.

I am not at all convinced that all of the school people will go for this change in date unless they are educated first. I feel that there are going to be many

meetings with the school authorities and there are going to be many disagreements, but I do feel that it can eventually be ironed out. There is the one difficulty of a fiscal school year being budgeted in two different calendar years. That is going to sound strange to many school officials but they can receive so many other benefits from the minor nuisance of budgeting an active year of the school into two different calendar year budgets, that I feel that the school folks can, if the proposition is presented to them property, reach our line of thinking on this.

BRADLEY: Now, besides school districts, what other types of districts would be materially affected by this change in the fiscal year?

HASTINGS: Certainly all of the public agencies that levy taxes on the county tax roll - a multitudinous number of special districts would be affected. I have heard at least an intimation from the cities that they might not be too interested in this proposal; and yet we have this factor - I believe that everyone feels that wherever possible it is highly desirable to consolidate the collection of taxes onto the county tax roll. It might raise great problems if the county is on the calendar year basis and the city on the fiscal year basis. Possibly, therefore, if this is to be done, it might mean many hours of work with the cities' representatives, as well as schools and special districts.

BRADLEY: Are there any other questions?

MacBRIDE: Yes, I have a question, Mr. Chairman.

BRADLEY: Mr. MacBride.

MacBRIDE: Mr. Hastings, you stated that if everything went very smoothly that we might be only five years away from seeing this plan come into realization. Actually, if this matter did receive sufficient study prior to this next general session of the Legislature and if we could go to the people with a bond issue, such as has been discussed here this morning, we aren't five years away. We are the length of time away that it would take to put through a bond issue, because in that case we would have the money immediately with which to defray this expense that would come up during the six months' period. Am I not correct in that statement?

HASTINGS: If all the factors are in agreement, we could do this in much less than five years, but I am assuming that we are going to have a considerable problem of ironing this out among all the folks involved.

MacBRIDE: Yes, I understand that but I preface my question with that "if" we are all in accord, the matter could be given sufficient study, and "if" we went about it in the direction of a bond issue, rather than trying to build up this general reserve, then it could be accomplished in much less than five years.

HASTINGS: It could be possible.

MacBRIDE: Yes, thank you.

STANLEY: Mr. Chairman, may I ask a question? Mr. Hastings, don't you think it would be advisable to put in a Constitutional Amendment at this next session that may become effective five years from now, or some such date, because it would certainly bring out your whole problem on a statewide basis and, therefore, you won't just be waiting to get the whole thing settled before you submit it?

HASTINGS: I think that with the introduction of a Constitutional Amendment that we might find during the session we can't get together on it. Therefore, the procedure, as you indicated, to create an opportunity to the people to vote on it would be an excellent idea for this coming session.

BRADLEY: Mr. Cook.

COOK: Is there anything that could be done with regard to the subventions, the in-lieu taxes, or anything that comes from the State, as to the time of allocation to county government that would help to alleviate your problem?

HASTINGS: Well, many of the State subventions are just automatically made to solve the problem. The aged, blind, and childrens' subvention - we get 18 payments during the long fiscal year. The same with the S.R.I. road funds. We get 18 payments there during the fiscal year.

It is quite possible that if, for instance, the school apportionment could be set up to arrive and be available to school districts earlier, that that would certainly be an aid again in this interim period before we can go into our final program.

COOK: It is my understanding that the school money now comes on a monthly basis, is that not correct?

HASTINGS: I don't believe it is quite monthly. I think it's ten or eleven payments. . .

COOK: I think it is eleven payments out of the year.

HASTINGS: But it would be very helpful to a school district if they were to receive an early July payment. That's the period of the year when they are most in need.

COOK: Well, how about such things as the Motor Vehicle licensing and your liquor license - I understand that is only semi-annually at the present time.

HASTINGS: The Motor Vehicle in-lieu license is not even semi-annual because we receive a very small payment about the middle of the fiscal year. Our really large payment - the payment that counts - doesn't come until the latter part of June. It would be tremendously helpful if something could be arranged to get that Motor Vehicle in-lieu license money into the hands of the counties at an earlier date.

COOK: Say mid-spring or something of that sort.

LANTERMAN: Why are we not . . .

HASTINGS: That might be the answer but it would have to come from the State source of that income.

MacBRIDE: I have another question, Mr. Hastings. Actually these in-lieu payments and subventions from the State, and so forth, have all been taken into consideration in connection with the taxes that are being collected. I can't see when your payments are being received on a monthly basis that that is going to assist you in any way in connection with building up this general reserve, or in defraying the expenses that are normally paid out of tax money. We're not talking about subvention money. We are talking about tax money here.

HASTINGS: I was attempting to answer the question, Tom, under the impression that it was to alleviate matters until we come up with that final program.

COOK: My only point in making that statement, Mr. MacBride, was that if any of the subvention money or in-lieu money could come at a period during which the dry period is in existence, then it would help to alleviate that dry period, not only from the point of view of . . .

HASTINGS: Of course we would no longer have that dry period if we could possibly go into Mr. Lowery's proposal. Then that wouldn't be too important a factor, but it is important at this time.

MacBRIDE: In other words, your point is that some of this subvention money could be speeded up a little bit and it would come to us in that six months' dry period. That would not apply to the payments that you normally receive on a monthly basis. That wouldn't have any effect at all, would it?

HASTINGS: No, those are coming in very nicely.

STANLEY: Mr. Hastings, I would like to ask one further question. What would the effect be - and Mr. Lowery might like to join in this - if we introduced a Constitutional Amendment at the next session and it was passed by the people, just making the statement that by say 1962 the fiscal year shall be concurrent with the calendar year.

HASTINGS: I would like to add a thought to that, Mr. Stanley. It is quite possible that the most effective way of handling this problem would be that the Constitutional Amendment would simply empower the Legislature to fix the calendar year.

STANLEY: Well, if it was put the other way, though, then the counties wouldn't have any political pressure on them and they would have to take care of it by some means before 1962.

HASTINGS: Well, speaking of getting this Constitutional Amendment into the next session, and immediate adoption by the people, let's note this thought: possibly we will get it through the Legislature; the people will vote yes, and then we will find something horribly

wrong with the whole procedure. It would be easier to take care of it by legislative action. . . .

STANLEY: You have five years to repeal it!

BRADLEY: Now, Mr. Hastings, don't dash our hopes to the ground so fast and intimate that there is anything wrong about it. If you have any doubt about this, now is the time and the place to lay your cards upon the table, regardless of the fact that you know Mr. Lowery is present, because I know that Mr. Lowery would be more than happy to hear any probable objections to his plan. We are working on a very practical and serious matter here and if there is anything that we can think of, I mean the Committee or any of the witnesses, it is a matter of public duty in my mind to bring these points out.

HASTINGS: If I had any doubts in my own mind as to the ultimate practicability of Joe Lowery's suggestion, I wouldn't be up here advocating it; but it is a very involved procedure and I am afraid that things might come up that are beyond my limited capacity at this moment.

BRADLEY: Well, I was just thinking that Mr. Stanley's suggestion would perhaps have a favorable effect of say putting a time limit on the process. While I haven't been in the Legislature too long, I have been impressed by the fact that the gentleman who said that things would move along over a period of from 15 to 20 years is pretty nearly right on many problems. It does

seem to take an unreasonably long time, although it is often due to the many complications that are involved.

However, if there weren't any practical objections, because they may not all be thought of today, we should be thinking about why a Constitutional Amendment could not be suggested which would put a time limit, like 1962 on it. This would then give notice to all 58 counties that they are going to have to do some planning, plus the fact that it would give notice to the Legislature that they are going to have to put a proposition on the ballot providing the necessary funds, as well as notice to the State Controller, the Department of Finance, or any other governmental agency that could provide figures whereby we would become acquainted with the amounts involved that would be necessary as a borrowing fund for the counties, school districts, and all other districts, as you suggested, that would be involved. Sometimes it seems to me that that is the way to get things done.

HASTINGS: Actually, Mr. Stanley's suggestion is excellent. I perhaps have a slight prejudice against freezing into the Constitution details that could best be left to the Legislature.

BRADLEY: Well, we feel complimented by what you say but from a practical point of view, I think sometimes it is better to put a fixed time limit in the Constitution and not leave it to the Legislature.

LANTERMAN: Mr. Chairman, may I throw in a layman's viewpoint on this - not being a fiscal expert?

BRADLEY: Yes.

LANTERMAN: Could it be stated in the Constitutional Amendment that the Legislature may before 1962 enact such legislation for policy of local agencies of government relating to the fiscal year, or the tax year, but shall not enact such legislation later than 1962? In other words, give it permissive power up to that time and make it mandatory then? That would keep it currently before us and in the succeeding sessions as a current thing that we are working on to the end that we meet a dead line, but we can enact it in advance if necessary.

MacBRIDE: May I answer that?

BRADLEY: Mr. MacBride.

MacBRIDE: Well, my objection to that would be that this isn't telling the counties that we are going to make the fiscal year coincide with the calendar year - it merely indicates that we are taking it under study, so to speak, and almost making it optional. In the meantime, the purpose of our putting in the Constitutional Amendment that Mr. Stanley is suggesting is that we are telling the counties that come 1962 we are going to change the fiscal year so that it will coincide with the calendar year, which in turn will give the counties the opportunity to start building up this general reserve fund that they want.

In other words, you have made the suggestion that the people of the State should also be appraised of the fact that we might put through a bond issue five years from now and from which they can defray their cost of getting over this dry period; but all of the counties may not subscribe to that. In other words, some of the counties may want to go on the five year Christmas Fund basis of accumulating this money and at the time that we put this through, they will then definitely have the dough on hand with which they can cover their six months' dry period.

BRADLEY: Well, Mr. MacBride, we should bear in mind, as I understand it, that the counties cannot accumulate surplus funds. They have to account for the surplus funds at each succeeding budget unless you have special cases provided by law for an accumulated building fund. If I am not correct on this, I wish to be corrected; whereas in some districts, such as schools, I believe, they can accumulate surplus funds. Am I correct in that?

HASTINGS: The schools can accumulate both general and unappropriated reserves and they can accumulate by an accumulated building fund.

BRADLEY: In other words then, we could say that there are now some districts that during this period of time could plan to accumulate funds to carry them over the six months financing period. They would have to spend the money during that six months that they aren't going to

get any tax income to carry their general operating expenses. Even if that is true, then of course your counties could not so accumulate now unless - and it just seems impossible - it could be interpreted that the accumulated building fund could be construed to be a fund that the counties could use to accumulate funds for this change in fiscal year. I doubt if such a ruling would be made. Therefore, your counties would be up against a genuine inability to accumulate unless there was, I presume, a Constitutional change allowing them to accumulate for a specific purpose, such as change of fiscal to calendar year.

MacBRIDE: I would like to have Mr. Lowery comment on that for the reason that I believe it was in his original proposal that there be some type of a Christmas fund built up. It was at least one of his suggestions that there be a fund built up say over a five year period, or over a prescribed period of time, from which this money could finally be drawn for the transitional period. Maybe I misunderstood his original proposal. If so, I would like to have it clarified.

BRADLEY: Mr. Lowery, I believe you suggested that as an alternative.

LOWERY: Well, it was one of the suggested solutions which might be used in toto or in part - one or the other. It could be created now as a general reserve, but it would have no restrictions on it and it could be expended at any one time - or during several

budget years - and at the end of five years not be there. But, if through legislative action, such an accumulation with restrictions imposed upon it, could be effected - not as we would build the general reserve now, but somewhat similar to what is done with the accumulated building fund, and it can only be used for the purpose for which it is created - it couldn't be dissipated until the time arrives when it would be used.

MacBRIDE: Mr. Lowery, could that restriction be put on there by legislative act rather than requiring a Constitutional Amendment?

LOWERY: I think so. Now I may be wrong; it's just an idea.

LANTERMAN: Mr. Chairman, may I ask a question?

BRADLEY: Mr. Lanterman.

LANTERMAN: What sources other than a bond issue had you in mind for the accumulation of that fund?

LOWERY: Well, one would be that the local governing board would increase their tax levy each year by some slight amount to provide an amount of money that could be accumulated over a specified number of years, and that money then would finance that extra six months of operation.

LANTERMAN: Could the sales tax be applied in such a proceeding?

LOWERY: Well, the sales tax is a revenue to cities. . .

LANTERMAN: Well, could it be earmarked for a period of time?

LOWERY: In some counties they wouldn't have any sales tax revenue the way it is operating at the present moment.

LANTERMAN: Well, that's because the county sales tax is pretty well limited and with the exclusive prerogative of city government to use the sales tax for their purposes.

LOWERY: Yes, but the levy, which is the difference between the requirement of the budget and revenue other than the amount of the property tax, would be increased to provide for this financing fund that . .

LANTERMAN: But had you in mind matching funds between the State and the counties for that purpose?

LOWERY: Not necessarily so.

LANTERMAN: Why not?

LOWERY: That's an idea. I've thrown out several ideas as to . . .

LANTERMAN: It might speed up the period within which you could accumulate the funds by a matching fund deal.

LOWERY: It definitely would.

STANLEY: Do you want to comment on my question?

LOWERY: Yes, I would like to answer Mr. Stanley's question and I was going to answer it the same way that

Jim did, in that if you fix the date in a Constitutional Amendment that would be a resolution of the next session. It may be we can't resolve all of the problems on all of the agencies affected in time to present the picture from an educational standpoint to the people so that they would vote favorably on it. I think we should have all of the problems resolved first as to just how we are going to do it and what the schedule would be before we would fix the date. I would prefer the amendment if it is to be offered to the people at the next session, but give the Legislature the power to establish the fiscal year.

STANLEY: Well, that would be all right. My thought was that if you have it come out as being effective immediately and tell the people that they have to pay 18 months taxes in advance, starting now, they are going to overlook all of the good points of the change and see only the problem of paying 18 months taxes - and it's not going to go over. If you can set it up so it can be taken care of over this interim period, why . . .

LOWERY: That's why I say I think we ought to have all of the answers, that is the answers that are acceptable to everybody concerned before the proposition is laid before the people.

BRADLEY: Mr. Geddes?

GEDDES: I think this is a very good kick-off meeting and I would like to ask you, Mr. Lowery - and I

would like to have any comments from Mr. Hastings, if he wants to - how many different taxes does the County of Los Angeles collect? Just off-hand - not an actual number.

LOWERY: You mean from how many agencies?

GEDDES: That's right.

LOWERY: Well, the tax rate resolution that I presented to the Board had 1100 tax rates on it on September 1st. Now there are not that many taxing agencies; some agencies have two or three or four rates.

GEDDES: Just for illustration, you have mosquito control districts or you may have irrigation districts. . .

LOWERY: I think we have 217 taxing agencies in the County of Los Angeles which have the right to levy a tax on local properties.

GEDDES: That was what I wanted to bring out. Counties such as San Diego, Santa Barbara, and Sacramento are faced with the same thing, depending on what agencies have been created. Now, do those taxes and their disbursements complicate this budget procedure or are there some of those agencies where it is going to make very little difference - where they are getting along pretty well? We know the schools are stuck. They have to wait for the money but they would like to have it in advance. It comes to my mind, since your presentation of this morning, that there may be some of these districts where there would be no particular problem and, therefore, the increased tax that

they would have to accumulate might not be a factor that would have to be added to the total tax levy.

LOWERY: That's true.

GEDDES: So we need to study and pinpoint those areas where this could be modified.

LOWERY: I was telling Mr. MacBride this morning that the funds that are provided for servicing bonds - meaning coupons and bonds - have a reserve in there that is sufficient to carry to December 31st of the following year. When we make our first levy on a bond issue, we put in for an 18 months' requirement because the indenture in the law requires a levy clearly sufficient to meet the maturing bonds until the next proceeds of tax levy are available. Well then, we still set the second levy up with an 18 months' requirement, but we have 6 months' requirements in money that we deduct from it so that the levy is only for a year's need - but it's the year six months beyond our fiscal year, which is what we want to arrive at for general operations.

GEDDES: Then here's one further question that will clarify something that Mr. Hastings said. Supposing under a capital outlay program, Mr. Hastings, that you are building a building and you provided for it - or some particular project - and it is going to take two years. Now, you are budgeting that only a year at a time, but some place along the line you had made your estimate and your

prospectus and everything so that you know that in the future budget year you are going to have to provide for Year No. 2. Isn't that right?

HASTINGS: In most major two year projects, and in a considerable majority of the counties, the project is financed from an accumulated building fund or a bond construction fund; and under the existing law - I may be wrong and if I am I know I will be corrected - it isn't even necessary to budget that type of project. But the common practice and procedure is to re-budget the remaining cost of the job in the next year's budget.

GEDDES: That's the same as is required at the State level.

HASTINGS: I would like to throw one more thought at the Committee and that is that there is a third method of financing that hasn't been put before you -- the possibility of legislative action to set up a procedure by which the county could sell tax notes that are payable in equal installments for thirty years. That could be used as a method of financing here. At the moment the county cannot sell tax notes except those that are repayable from the immediate monies in the county treasury, but the Legislature could change that.

BRADLEY: Now, just for clarity, do you mean that that would be a means of financing this 18 months' period without a bond issue or without a . . .

HASTINGS: Without a bond issue or without an accumulated fund.

BRADLEY: Now, wouldn't the Legislature have to make a broad provision to cover every district then too?

HASTINGS: Very possibly yes. I can see a tremendous number of changes and a tremendous number of codes. I can think of 50 to 100 changes in the Government Code alone to make this deal effective.

MacBRIDE: Excuse me, are you referring to this proposal that you have just made or to the overall plan?

HASTINGS: To the overall. This particular proposal would just mean a legislative act affecting counties; and then there are two possibilities for the remainder - a broad act covering everybody, or the possibility of incorporating this wordage into each individual act covering each individual special district. There is still a problem there and you probably won't solve this by just putting one broad amendment in.

LANTERMAN: Mr. Chairman, may I ask this question and have Mr. Hastings explain whether there is any basis for my concern? Would there be any effect on present bond issue procedures by the impact of the first 18 months' levy in the first year? Would there be acceptance or rejection of a bond issue, due to the impact of this heavier levy on the first year in an area where the problem is fairly controversial or would it tend to dispel some of that controversy on those first issues?

HASTINGS: Well, Joe Lowery explained that as common practice he raises sufficient funds to pay both principal and interest for the first 18 months, and I don't believe changing from the calendar year would affect that at all, would it, Joe?

LOWERY: No.

HASTINGS: And I don't think it would cause any legal doubts as to the validity of any bond issue. Most counties do develop reserves. Now in Sacramento County, were we to make the change-over to the calendar year, it would not be necessary to either levy taxes or finance additional money to pay off any of our bond issues. We could continue right on with the same nominal levy we have now because, as Joe explained, we have reserves in all those issues.

BRADLEY: Mr. Hastings, wouldn't that possibly be true in most all types of districts that have the power to issue bonds? Don't you generally have a reserve sufficient to cover a six months' payment of interest and principal?

HASTINGS: I would say that is true of all those agencies whose bonds are refunded from the county treasury. I can't speak for cities or a few other districts that . .

BRADLEY: Now that brings a question to my mind and this more or less gets down to a basic question. Just what would be required to be furnished to a governmental agency changing from a fiscal year to a calendar year?

What funds would have to be provided and for what specific purpose would those funds be used? Would it be primarily for your general operating expenses?

HASTINGS: Not necessarily. There would be the capital outlay program during that extra six months also but I think it was brought out either this morning or in this session that it might be quite wise for the County to go on an austerity program for the period and spend no money for capital outlay that wasn't immediately necessary. That again would serve to cut down the excess needs during the period of change-over.

BRADLEY: Now when you say a capital outlay program, you mean a voluntary type of program that a county is engaging in.

HASTINGS: Most all capital outlay programs represent a free choice. In other words, they can either go into the outlay program or they can defer it for another year.

BRADLEY: Well, wouldn't the primary concern be to meet the obligations of a contract which has already been let on which you might have progress payments in the course of construction, for example.

HASTINGS: Those definitely would have to be figured in to the period.

BRADLEY: Other than that, you would have to have your general monies necessary for general operations which would include, of course, salaries and so on.

HASTINGS: Actually, to establish the whole deal, the first step would be to establish the overall needs - capital outlays, salaries and wages, maintenance, and operation, for the 18 months period of the agency; then, establish the revenues other than taxation, which includes fees, fines, forfeitures, and the Federal and State subventions. The difference, in normal years, would be the amount raised by taxes. But, if the amount raised by taxes would indicate a tremendously higher tax rate, then we would need this additional money, whether it be a State loan or a reserve fund, to cut the tax needs down to about the average of what it is in a normal year.

BRADLEY: Well, one more question. When you say "18 months' period", aren't you actually talking about twelve months of normal operation, including tax revenue, plus a six months of your dry period?

HASTINGS: Actually, your fiscal year is 18 months long during the . . .

BRADLEY: That's right. Six months of which would be the problem.

HASTINGS: That's right.

BRADLEY: Are there any other questions?

MacBRIDE: I'm sorry, I just want to get one point clarified. In connection with these bonds, you stated that a sinking fund, so to speak, is set up for the servicing of these bonds, and you collect a sufficient amount to service

the bonds for 18 months, the purpose of it being to carry you through the six months dry period. Isn't that correct?

HASTINGS: Well, the purpose is to provide funds in the treasury to meet the bonds and coupons when due. A good example might be a bond issue falling due in January, with $9,000 in principal and interest due then. You must actually levy $18,000 in that case to have that $9,000 available in January, because the other $9,000 won't be coming in until April. And so, it is the custom in many counties at the first levy to levy sufficient monies to cover the retirement of principal and interest for an 18 months period. That rests in the fund forever and a day until the bond issue is finally paid off, and has the effect of assuring the investors that the particular issues of that county are solvent. The fact that good reserves are kept actually enables the county to sell their bonds at a lesser interest rate.

MacBRIDE: Well, under the present system, the following year when you budget again, you budget so that there will be a sufficient amount in that sinking fund to service those bonds for an additional 18 months' period. Isn't that correct?

HASTINGS: That's right, but you take as a credit the unused six months, so you are actually collecting in taxes for a 12 months' period.

MacBRIDE: I'm aware of that but, nevertheless, you are budgeting so that there will be 18 months servicing in the budget - in the sinking fund.

HASTINGS: Right.

MacBRIDE: Well, now, assuming that we take on Mr. Lowery's plan, did I misunderstand you to say that you would continue to maintain that 18 months' sinking fund, even with Lowery's plan in effect?

HASTINGS: No, once we are on a basis where we have collected the money before we are in the fiscal year, we would not need the large reserves. That is why we would not have to provide additional finances for the sinking and interest fund.

MacBRIDE: In other words, your sinking fund would contain only 12 months, and in the meantime, to get the ball started rolling, you could use that six months accumulated money in the sinking fund to help finance this dry period.

HASTINGS: It would be possible, Tom. Actually, I think in Sacramento County that I would continue to levy just for the 12 months and keep the reserve in the funds. In other words, I wouldn't be levying for 18 months in that sinking and interest fund during the time I am levying for 18 months in everything else, but I would levy for twelve months.

MacBRIDE: Yes. Thank you.

BRADLEY: If there are no more questions, I thank you, Mr. Hastings. Now we would like to hear from Mrs. Irene Maddox.

MRS. IRENE MADDOX, Imperial County Auditor: I am Irene Maddox, Auditor of Imperial County. I didn't expect to say anything but now that I have the opportunity, I will. Our county is small of course and we are not concerned much with financial problems. We run our whole county on an 18 months' basis as we do the bond interest fund. The problem is the work that falls as a result of this fiscal year. We are closing out the old business and opening up the new business, and have all your reports due at one time. You have vacations, and it seems that both years collide in their work in that short period of time. It makes it very hard for you when you are trying to meet dead lines on all of these things. As I say, I think that on the matter of finance I will go along with the others because our problem is smaller and we are set up now where we are running quite satisfactory to us. But the work problem is really a big one for us.

STANLEY: But do you favor this change, though?

MADDOX: Very much.

BRADLEY: Mr. Cook.

COOK: Would your work problem be any different on a calendar year basis than it would be on a fiscal year basis? In other words, you would have the collision of the two years, no matter what the basis was.

MADDOX: Well, there is all the matter of opening new books and closing old books, a matter of recording, financial reports, and things of that nature that would fall

in January instead of in July as they do now. Vacations for your employees are also a present problem. In our county it is very warm and hardly anyone can get their vacation during the warm time. They have to wait until the fall or spring to take their vacations because we are so terribly busy during that time. I don't know how it would affect other counties - maybe other counties have more help than we do or are better equipped to arrange that program, but with us it is quite a problem.

BRADLEY: Are there any other members who have any questions? Thank you, Mrs. Maddox.

LOWERY: Mr. Chairman, may I supplement Mrs. Maddox's statement a little bit? The pressure of work is a very important one to all of us and it isn't only prevalent in the small counties. If the collision of the two years - the closing out of the old and the starting of the new - were put off, we could prove the tax roll and certify valuations to the various taxing agencies without the interference of closing the old books and keeping the new. A terrific amount of pressure would be taken off of us. That's where the work load pressure is. And then of course after we have prepared the tax rates for the Board of Supervisors to adopt, we have to start applying it to the rolls, making extensions and footings, and get the rolls to the tax collector just as soon as we can so he can make out the bills and send them out to the taxpayers. So it

isn't just the collision period of the closing and opening of the year's accounts. It is that it occurs at the time when we have this pressure of proving the rolls that the assessor turns over to the Board of Equalization and to us. Also in most counties the budget processes by the auditor's office require that we present it to the Board with recommendations and they sit in judgment on it - all in this same period of time. Then they adopt the budget on the last Monday - or the 30th of August - so that is where the pressure of work comes in so far as the auditor is concerned. There are too many peak pressure deadlines all at the same time.

STANLEY: I would like to ask, what do you do the rest of the year!

LOWERY: We don't sit idly by because there are other things that come along that keep the line pretty well close to the top. It isn't up here as it is in July and August but it's pretty close there. We used to have seasonal peak loads but we don't have them any more.

BRADLEY: Mr. Gray.

MR. CLARKE GRAY, Auditor-Controller, Ventura County: I am Clarke Gray, Auditor-Controller for Ventura County. We haven't had too much financial trouble, but the proposal would help. Our greatest problem would be on the budgetary year and the tax year. It would help us tremendously if this plan was adopted. The school districts in our county,

I think, would have difficulty in financing the program on a five year period. Most of them are at the top of their legal tax limit now and most of them have had elections to increase that for maintenance purposes. They would more than likely have to have help from the State level to carry this burden. Maybe a combination of local and State assistance would help them through. They would benefit eventually though by this program - the school districts - by having all their taxes in when the fiscal year started.

I think Mr. MacBride offered the solution of the State bond issue to finance the whole program. If that was possible and you paid it back over a period of time, you could hasten the day when this was adopted by not having to wait out the five year period. That would be at the county and the school district level.

BRADLEY: Well now, Mr. Gray, in regard to the school districts in your county, would there be anything about their present financial position which would make it difficult for them to pay back an advance made by the State from the bond issue over say a period of ten years?

GRAY: If it was a combination of a waiting period and the ten years, I can see no great difficulty, because it would give them a longer time.

BRADLEY: What do you mean by a combination of waiting period and ten years?

GRAY: Well, there has been mention of the five years to build up a reserve - also a bond issue.

BRADLEY: Oh, you interpreted that to mean a combination of five years, plus a ten year repayment period.

GRAY: Yes. Of course the schools do - some of them - have a nice reserve now. Some of them do not.

BRADLEY: Aren't the school districts in about the same position as far as their bond issues are concerned? Wouldn't they have a reserve sufficient to pay an extra six months period there without too much trouble?

GRAY: The County Auditor's Office handles the school bond issue and they are worked, as I think Mr. Hastings mentioned, on the 18 month period.

BRADLEY: Your school districts will be confronted with a need for money from a State bond issue for this six months' period, primarily for teachers' salaries, retirement benefits, maintenance, and so on.

STANLEY: Mr. Chairman, don't they get the same amount of money eventually anyway? You are not just eliminating six months, are you?

BRADLEY: No, no, you're not eliminating it.

STANLEY: Well, I just . . .

BRADLEY: They just need enough money to run that six months. That was my next question, Mr. Stanley. Would there be any great problem - well, let me put it this way: What would be the problem to any governmental agency, literally speaking, in paying back the money that they borrowed from the State bond issue over a period of ten years?

Could they apportionate it in one-tenth per year for the period of ten years, plus the little interest that might be required, thereby materially increasing the tax rate in the district or the County?

GRAY: I think it would have to be a budgetary problem for them to budget for that payment each year and it would increase the taxation.

BRADLEY: And some counties could even take it out of a little reserve, if they had such a reserve in their budget, and school districts would do the same.

GRAY: None of them would need a general reserve when this went into effect.

BRADLEY: I've never asked this question before but is there any reason why ten years is not an ample period of time to repay a loan from a State bond issue?

GRAY: I think it would be ample.

BRADLEY: It might even be arranged that they could pay it back sooner if they wanted to, so far as that is concerned, to relieve themselves of interest charges.

GRAY: If we had a bond issue, that might be optional with the counties of the State.

BRADLEY: Are there any other questions by members of the Committee?

GEDDES: Mr. Chairman, I've just been trying to draw a chart of this. It's confusing, I'll admit, because you can see that there are two problems - one of budgeting,

and one is to get the money in to make the expenditures as provided by the budget. I've been analyzing, or trying to, the six months' period. Would it just complicate the picture if, instead of saying that we would prepay six months, or build that up, that we would do that for three months and then pick up what we over-expended there in the 12 month period, with the other three months in the following year. Instead of getting six months in advance ready, you would get three months in advance ready, and then after Year I of the new system - whatever you were behind - you would pick that up. I think it is just a further complication, isn't it?

GRAY: I don't quite see how it would work. I may not be getting your point . . .

GEDDES: One other thing that comes to my mind is that if we provide, let's say, a six year period, the Year VI will be the first year that we will go to the new basis. Everything being equal, and supposing we went along on an even keel, that wouldn't relieve our problem at all?

GRAY: No.

GEDDES: All right, we can take that as an assumption. When we get through then with the six years, there hasn't been a dime more taxes paid than would be paid under the present system because the expenditures have been the same - if we were to make that assumption. But, there is going to be a pre-payment at some time, which has everybody worried -

the taxpayer particularly. The problem is paying that extra six months at some time along the line, which means additional taxes, but the final tax bill is no greater.

GRAY: Yes. Your theory, then, would be to raise half of the necessary required money during this six years to carry the . . .

GEDDES: No, I have abandoned that. I think we have to raise it all one way or the other if we are going to do it at all, but I think John Taxpayer is the one who is going to kick the hardest. We can't tell him, "Well, sure, you're paying this extra six months; you've got an 18 months tax bill this year, but next year why you will only have a 12 month" - to which he'll say, "Yes, but I'm still stuck for six months". If we could say, "Next year you are only going to have six months taxes" why, he would probably go along, although he says, "Well, how do I know I am going to live that long?"

GRAY: Well, he won't have the six months in one year if it is built up over a period of . . .

GEDDES: Not if it is built up over a period, but he'll say, "What makes my taxes so much higher this year than they were last year?" and you've got to explain that to him each year over a five year period.

STANLEY: Mr. Chairman, may I ask a question? Forgetting all about building up a fund or anything, under your present set-up you have two payments a year, don't you?

GRAY: That's right.

STANLEY: Why can't you just declare your next fiscal period to be 18 months and have three payments? From then on you can have your fiscal year with two payments.

GRAY: You would have two of them coming very close together, I am afraid.

STANLEY: Well, you would have three instead of two in a fiscal period that you declare to be 18 months instead of a year.

GRAY: Well, you would still have to pay three times in one year. If you were to collect now in December and April, you would have another collection the following December; then that would overlap with next December.

STANLEY: No, the next fiscal year you would have April and December. You would have to declare that your present fiscal period is 18 months instead of a year.

GRAY: But that is only going to be for one year.

STANLEY: That's all.

GRAY: And if it is in three . . . . .

STANLEY: But it wouldn't need any more money than you do now, would it?

LOWERY: May I answer that, Mr. Stanley? I think I stated this morning that it would be the same as if we levied for a six month period first and then a year period. Two of the tax payments - one for the six month period and

one of the payments for the year period - would fall due at the same time and you haven't gained anything. The same would apply here. If you made three payment periods, two of them would fall due at the same time. We are not proposing the changing of the collection dates at all.

STANLEY: Oh, I see. Under your present payment set-up, there is a certain date when the payments are due.

LOWERY: Yes, so you would have one payment falling due for the first half of the tax collection and then you would have two payments falling due on the second half; so you would have two bills and two payments on the second half if you divided it into a year and six month period.

BRADLEY: In other words, Mr. Lowery, actually that falls within your "benefits list" whereby you would extend the due date from November 1 to December 1, and the delinquency date would be extended from December the 10th to January 10th.

LOWERY: Well, that gives an advantage to the operators of one additional month in handling the pressure period.

LANTERMAN: Mr. Chairman, do you think this thing could be explained for a Constitutional Amendment so that the people could vote on it?

BRADLEY: Oh yes, I think so. What you are doing in your Constitutional Amendment, as I see it, would be merely to change your fiscal year for your districts, counties, and so on, from a certain fiscal period to a calendar year, to go into effect at a certain date, plus a bond issue which,

in my opinion, is the simplest and cleanest way to do it.

LANTERMAN: Well, it would be the explanation of a bond issue that would get you, wouldn't it?

BRADLEY: Well, I think that would be something that would require rather careful phraseology, but . . .

LANTERMAN: Get Whittaker and Baxter!

BRADLEY: . . . you would have enough benefits to list in the argument, I think, in favor of the bond issue, plus the fact that you would be clearly pointing out that this money would be repaid by the various governmental agencies.

LOWERY: Mr. Lanterman, that is the real nub of the whole thing. How are you going to sell the people the idea that the tax rate of various public agencies is going to be 50 percent higher at the time of the transition; and how can you overcome that? Those are the things we are trying to resolve.

LANTERMAN: You've got to have some gimmick to sell it, such as showing that this was going to mean a lowered rate of employment of some kind and that you save tax money by doing it.

LOWERY: We do have the fact that the existing reserves in the treasuries of the various agencies would be used to lower the tax rate. In the long haul, the taxpayer isn't going to be paying any more money, but you can't sell them on that idea. I mean, that isn't going to be an easy thing to do.

LANTERMAN: Actually, what this would amount to is an explanation to the taxpayer saying we are going to save you money by charging you more.

LOWERY: Yes, that is what he would interpret it as being, and yet that isn't exactly what it would be. You would save money because we would apply against the amount to be levied all of the reserves that are in existence in all the treasuries. It would cut down the levy against property to that extent, but even so, that isn't enough to carry that six month extra burden so there is going to be a rate increase, and the lower you can make that impact, the easier it is to sell the idea, That's what we are trying to resolve - just what is the best way to lower that impact.

BRADLEY: Mr. Nisbet has a question.

NISBET: I would like to ask you, Mr. Lowery, if what you are attempting to do is to get six months taxes in advance - to put that ahead. Isn't that what you are trying to do? Actually, there would be a credit of six months.

LOWERY: That's right. Exactly.

NISBET: That's what you want to get over to your taxpayers.

LOWERY: But they will come back as Mr. Lanterman said and say, "What is the advantage to me?"

BRADLEY: Well, I think that as long as there is an actual period of time during which the taxpayer is saddled with a 50 percent increase in tax, which he would

not normally be saddled with, if I have the picture correct, and provided that this bond issue carried, then . . .

LOWERY: Or some other method.

BRADLEY: Yes. In other words, the bond issue would also be paid off out of local taxes, but it would be paid off over a period of ten years and in many instances there would be no increase in tax at all, because you would have enough leeway to cover this increased assessed valuation. Now Mr. Cook has a question.

COOK: I am still somewhat perplexed as to the answer to the question Mr. Stanley asked, and that is why you cannot either establish a third collection date in setting up for the 18 months period, or why you cannot split your collection date in such a manner as to provide that you will have three collection dates within that 18 months' period without having two fall upon the same date.

LOWERY: Well, you could by just injecting a new collection date in the picture.

COOK: All right. Now . . .

LOWERY: . . . halfway between, but still in that same period of a year. It would take the same amount of. . .

STANLEY: No, in 18 months.

COOK: You are going to be working on an 18 months' fiscal year. You are going to have 18 months in which to make three collections.

LOWERY: Yes, but here is the picture - the first

two collection dates that are in the picture are going to be for the 18 months period. The next two collections of December 10th and April 10th are going to be for the next year which follows the 18 month period. In other words, you are not missing a collection date. We are having all the collection dates the same as they are and we are getting into an operating period six months projected beyond the one we are in now, so that there isn't any collection date as they are now established that will be open where you could fix a third payment on.

STANLEY: Wouldn't a collection date come in within the 18 months automatically?

LOWERY: Yes, but the first two collection dates are for this 18 months period and they will have to produce more money than they would normally produce, because it is going to be 18 months. The next two dates - one of them will come in that fiscal year that has been provided for in the 18 months, that is the December date, but it is for the year immediately following, right at the close of the 18 months' period, yet it is not for that period. It is for the next period. That is what we are trying to resolve here - to get collections in before our year starts, so there would be that collection period date in the 18 months' period but it wouldn't be for that period. It would be for the following year. That is the basis we are trying to get on.

GEDDES: Well, isn't that founded on the old tax philosophy that as to the counties and the different agencies

of government that the tax is always to support the expenditures of the ensuing contemplated year?

LOWERY: Yes.

GEDDES: So, that is just a burden that is on the offices of the different agencies of government and on the county. This anticipated money is coming in after your budget is already in operation. That's the crux of your problem.

LOWERY: Yes, that is our problem. Have I answered you, Mr. Cook?

COOK: You have answered my question, yes. I'm sorry I was so dense on that.

LOWERY: I get confused and I think I know all the answers.

BRADLEY: Thank you very much, Mr. Gray. Mr. Rapp. Would you give us your full name, Mr. Rapp?

LEO D. RAPP, Auditor-Controller, Kern County: I am Leo Rapp, Auditor-Controller of Kern County. You gentlemen have really been very patient with this subject and it has been very interesting. This age-old subject seems to us to be a matter of business and we are trying to get it on a business basis.

I am heartily in accord with Mr. Lowery's plan and I think it can be worked out on one of these methods which he has set up. By integrating it, more or less, with the one that Mr. Teeter proposed will get us over the first hump and

enable us to start in prior to the time that we set up the long range program. It has very many ramifications and it little behooves me now to go into all of those that you have covered, but using our county as an example, I would just like to bring out the point of setting the dates for the work load. At this particular time we are working two shifts a day and that is quite uncommon in county government - at least in counties of our size. The work load at tax extension time becomes - well, it is not unbearable because we are there to do the work and we have to do it - but it is a little rough to find girls who will work with those machines on night shifts. We have to do it on a little different basis than Mr. Lowery does. He has enough help so that he doesn't have to bring in extra help. We do. We have to start a school the first of our taxing year to teach the girls, so that we have enough of that class of help. I think by setting just ten or twelve days difference would take care of that one problem.

Then on our budget problem we run into the same problems that you have gone over here a number of times. All counties are doing the same. We happen to be in the middle group of counties - not large enough to operate like Los Angeles, but too large to operate like the counties up north. We have our financing problems. Most of it is with schools, when it comes to loans, and special districts. Our county has about 84 special districts and 65 school districts. The loans that are made run from around a million dollars for

the larger districts down to $2,500 for the smaller districts. Our total loans in our county in the highest years, probably around about earthquake time, were nearly four million. This past year it was around two million. Right now one of the schools is toying with the idea of a million and a half loan because they won't have any money until around the first of the year. I don't believe it's a necessity to go over the various things that have been talked of so many times. I am heartily in accord with the program. I think we need it. It's going to take a long time to get it and maybe some of us won't be here when it really comes to pass, but we do need it and some day we will have it.

BRADLEY: Just a minute, sir. Mr. MacBride.

MacBRIDE: You and Mr. Lowery have both spoken of the necessity of putting on extra staff and of the necessity of working on holidays, and you say that you are working two shifts at the present time. Are you required to pay any premium for the employees that you have who work at night or who work on holidays? Are you required to pay overtime?

RAPP: Unfortunately we do not have any set-up for overtime of office help. We do in all union help, yes, but we are a little chintzy about office help so we try to compensate by time off. That's the best we can do on that.

MacBRIDE: And that applies to employees who might have to work on a holiday? In other words, you don't have to pay any premium for that help?

RAPP: No.

MacBRIDE: But actually this extra workload that you have does entail additional expense to the county that you would not otherwise incur if you did have this schedule spread out over a longer period of time, isn't that a fact?

RAPP: Yes, that's true.

MacBRIDE: Thank you.

BRADLEY: Now I understand that Mr. Kriz would like to say a few words in conclusion, but first, is there anyone else here who would like to speak on this matter? There is a Mr. Lyle - would you care to come up, and would you give us your full name and position?

C.V. LYLE, Vice-President Common Property Taxpayers' Association: My name is Lyle and I am Vice-President of the Common Property Taxpayers' Association. Most of what I had to say has been said here. However, I have a letter I would like to read to you gentlemen. It is not too long but it states our position at the present time.

LANTERMAN: Where is this gentlemen from?

LYLE: So far as location is concerned?

LANTERMAN: Yes, where do you live?

LYLE: I am from Los Angeles.

(Mr. Lyle reads the following letter:)

(Letterhead of) COMMON PROPERTY TAXPAYERS ASSN, INC.
September 24, 1956

Assemblyman Clark L. Bradley
Chairman, Assembly Interim Municipal and
County Government Committee
Police Assembly Room
105 South Los Angeles Street
Los Angeles 12, California

Re: Hearing on Proposed Change of Fiscal Year to Calendar Year for Tax and Revenue Purposes

Dear Mr. Bradley:

On June 4, 1956, at the general meeting of the Common Property Taxpayers Association, Los Angeles County Tax Collector H.L. Byram and Los Angeles City Controller Dan O. Hoye conducted a panel discussion on the above subject. This presentation so impressed attending members of this Association that we thereafter included it along with other subjects on a membership questionnaire concerning matters of legislation which our Association might desire to endorse for further study or immediate enactment.

Returns of the membership questionnaire showed widespread interest in a possible change of the fiscal year employed by agencies of California local government. Subsequent consideration by a special committee of our Board of Directors has resulted in certain determinations and request to your Honorable Committee, which I have the pleasure of transmitting to you as follows:

1. This Association wishes to endorse the presentation and request, which we understand will be made to your Committee at its Los Angeles meeting on September 25, 1956, by the Honorable J.M. Lowery, County Auditor of Los Angeles County, on behalf of said County, to the effect that the Committee conduct a full study of the possibility of changing the existing fiscal year (July 1 to June 30 of the succeeding calendar year) to a wholly calendar year basis.

2. This Association respectfully requests that it be permitted to file with you shortly the results of its own study by its special committee as to this matter, viewing the same primarily from the standpoint of the common property taxpayer.

3. In this connection, we suggest that your study of this matter be broadened to give consideration to a change of the tax delinquency and payment date as to unsecured personal property (now August 31) and of secured personal

property (now December 10) to a common personal property delinquency and payment date occurring during the month of June of each year. Preliminarily, it seems to us that this new personal property collection date would facilitate any change from the present fiscal year to the calendar year and in addition, even if such change were not made, would greatly reduce the requirements of reserve funds now necessarily built up to take care of the "dry period".

4. We further respectfully suggest preliminary consideration by you primarily, if a change of fiscal year is to be adopted, of financing the same during the period of changeover from specially created State funds (possibly by bond issue), and not by any 18 months levy. It is our feeling that it cannot be too much emphasized that the small common property taxpayer cannot afford any substantial increase over present levels of taxation without causing some financial difficulties. We fear that such difficulties as to the small taxpayer would probably indirectly affect all other taxpayers and public bodies alike to the detriment of all concerned.

Trusting that this Association may have the privilege of forwarding to you the results of its own study of this matter from the standpoint of the common property taxpayer, and wishing you and your Committee all success in the important investigation you are about to make, we remain

Sincerely yours,

/S/ W. Sumner Holbrook, Jr.

Secretary-Treasurer

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BRADLEY: Thank you, Mr. Lyle.

STANLEY: Might I ask Mr. Lyle a question? Would it be the opinion of your Association that if this change was made and it had to be raised by a State bond issue that the taxpayers would go for a slight increase to pay that back over a period of ten years?

LYLE: Yes, because as I understand it, the levy would have to be increased to take care of these bonds.

In other words, this idea of adding another 50 percent, or an additional six months taxes, is just too much at this time.

BRADLEY: I think that point has been pretty well understood now by the Committee. Would you be kind enough to leave a copy of that letter with Mrs. Harrison, our Secretary?

LYLE: Yes, I intend to.

BRADLEY: Are there any other questions? Is there anyone else who wishes to make a presentation? We thank you, Mr. Lyle, and appreciate your endorsement.

Now, Mr. Kriz.

GEORGE S. KRIZ, Auditor, Santa Cruz County and President of the State Auditors' Association: Mr. Chairman and members of the Committee, at the opening of this meeting you accorded me the privilege of making some opening remarks of a general nature and introducing the subject to you, inasmuch as it probably originated at a session of our Convention in February at Monterey. The matter has been submitted to you at some length. The number of people who have appeared and shown an interest in this is certainly encouraging and it appears to me, by the questions asked by the members of your Committee, that certainly you show a genuine interest in the problem. Now, as I mentioned at the beginning, we don't contend necessarily that this suggestion is the complete answer to the whole thing. However, it seems to include the taking care of the multiplicity of problems

which are all integrated in this same general idea - the threefold problem of finance, budget, and work load. My only purpose in these closing remarks, Mr. Chairman, is on behalf of our association to thank your Committee for taking up this problem, because as I told you, our interest is in good government, as is yours.

Speaking as an individual, rather than representing the Association, and with the thought that perhaps these remarks may be inherent in anyone who is an auditor, because we like to approach with caution the things that come before us, it would be my thinking that this matter is of such serious and far reaching import that any speedy action, even though some members of your committee have indicated that they are willing to introduce legislation at this coming January session, or any legislation we introduce this year, might possibly be trying to speed this thing too fast. There are too many ramifications to it and it is my own personal opinion that this matter, because it affects so many public agencies, should be studied carefully and thoroughly so that all of the possible answers can be developed before it is presented. We don't want to do something that we will be sorry for a little bit later. It's the old axiom of haste making waste. Beyond that, again I want to thank you on behalf of our Association and to extend to your Committee - I know I can speak for the Association, for myself and anyone who may succeed me

in that capacity - the full cooperation of our entire Association in meeting with you or any other group in trying to develop an answer to the problem that is before us. Thank you very much.

BRADLEY: Thank you, Mr. Kriz. Mr. Lanterman?

LANTERMAN: If we don't put something in print for the purpose of study and dissemination so that all aspects of its impact will have a chance to be studied by both opponents and proponents of the proposal, even though the proposal was not pressed, and if additional hearings are not held during the legislative session so that other members not now members of this Committee can have the privilege or the benefit of the continuing discussion, we possibly would lose an advantageous position toward the long-run solution of this problem.

KRIZ: Mr. Lanterman, certainly with that in view, it would be most desirable. My thinking was limited to the fact that legislation be proposed with the possible thought that it be pushed on through.

LANTERMAN: All legislation introduced is not intended to be passed.

KRIZ: I understand that and we appreciate that very much. Thank you.

BRADLEY: Now Mr. Kriz, I have one more question. Do I understand that your Association has a committee - a standing committee - that is or would be interested in following up on this particular plan?

KRIZ: Mr. Bradley, we have a legislative committee that is made up of about 25 members - 20 or 25 members - and I am sure that our legislative committee, or any other special committee that might be appointed as a sub-committee, will lend every effort to assisting you in any way possible.

BRADLEY: Well, that's fine. As Chairman of this Committee, I am pleased to know that you do have a committee that is working on this problem and one that we can call on. I would suggest that your committee, along with our own, be giving some thought as to how we might coordinate action on this matter to bring in all other governmental agencies which would be affected by this change, so that some common thinking could be done along this line. Now it is my experience that if we leave it to the school departments, for example, that is the various school organizations, to start thinking about this, they've got enough problems of their own and they aren't going to set up any committee and start doing this thing voluntarily. If that is their position, and I am not saying that critically, it would simply mean that in order to get the coordinated thinking that you have stated is necessary (and I am inclined to agree with) something is going to have to be done to keep pressing this matter.

Now it may seem as though Mr. Stanley's suggestion of introducing a Constitutional Amendment in the coming session of the Legislature would be feasible, and, very

frankly, it probably would be a very potent means of bringing the thought home to all governmental agencies to do some thinking on this. I would just merely throw this out to you so that if a Constitutional Amendment were introduced - and you can introduce them, they are resolutions and you can introduce them all during the coming session and not just the month of January - I would suggest that your organization not interpret that as a move by anyone to attempt to force legislation down the throats of anyone but perhaps it is a very expedient means by which this matter be brought to the attention of the other governmental agencies. I think the same history could be pointed to in regard to a number of legislative matters that have been finally resolved by the Legislature, and which took several periods of time to resolve. In several instances I can think of, perhaps that would have been speeded up if there had been some way of literally speeding up the process of getting all parties affected to do a little thinking on the problem sooner than they finally got around to doing it.

KRIZ: Mr. Bradley, we certainly appreciate your remarks. Mr. Eaves has been announced as the chairman of our legislative committee and Mr. Hastings, of course, has always been most active in the affairs of our legislative committee. We are planning a meeting of the committee within the next two to three weeks. Every member of our Association who has appeared before you today is a member of that

legislative committee, and to that extent I am glad that they are here today. You can rest assured that the matter will certainly be seriously discussed at that meeting.

BRADLEY: Thank you, Mr. Kriz.

GEDDES: Mr. Chairman, I would like to just amplify what the Chairman stated because in the previous two sessions of the Committee on Education, by the Sub-Committee on Apportionment, I know that some Superintendents in pointing out their difficulties to the Committee (which had to do entirely with the matter of school finance) have pointed out that there are these lag periods that affect them. They have not made as concrete a suggestion as has been made to us today, but they threw that out because it does touch on the general subject, which is school finance. Now, when they have a definite place to come - and it is much better to have one committee studying a particular subject over which it has general supervision, such as this committee - I know that we could get a great deal of cooperation from those school boards and school people who are thinking about this and are feeling, maybe in another way, the results of what is causing the treasurers and the auditors their particular difficulties. I think that by initiating a certain amount of trial balloon legislation to open up the discussion, and then by having the bills remanded to the proper committee for further study, that that would be advantageous to all of us.

KRIZ: No doubt it would be, Mr. Geddes.

STANLEY: Just as a point of clarification, with reference to my introducing legislation, I won't be there next year so I wouldn't introduce it anyway. However, I would recommend that Mr. Lowery, the Legislative Counsel, and our Research Director get together and get out a tentative Constitutional Amendment on this program, and have some member who will be elected get them in preprint. Then get those preprints to every agency so they can tear them apart or do anything they want to with them. You will then get it before them, whether they are ever introduced in the regular session or not. You can have it in print and get it to everybody that way. I would definitely recommend, if you want to go ahead with the program, that you start on that basis, rather than just waiting until somebody is going to come along and try to put it over.

KRIZ: We appreciate that suggestion, Mr. Stanley.

BRADLEY: Now I am about to adjourn this meeting and I will ask the Committee to stand pat for just a minute. We are now adjourned.

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